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The Business Quarterly

FALL 1958 | VOLUME XXIII NUMBER 3

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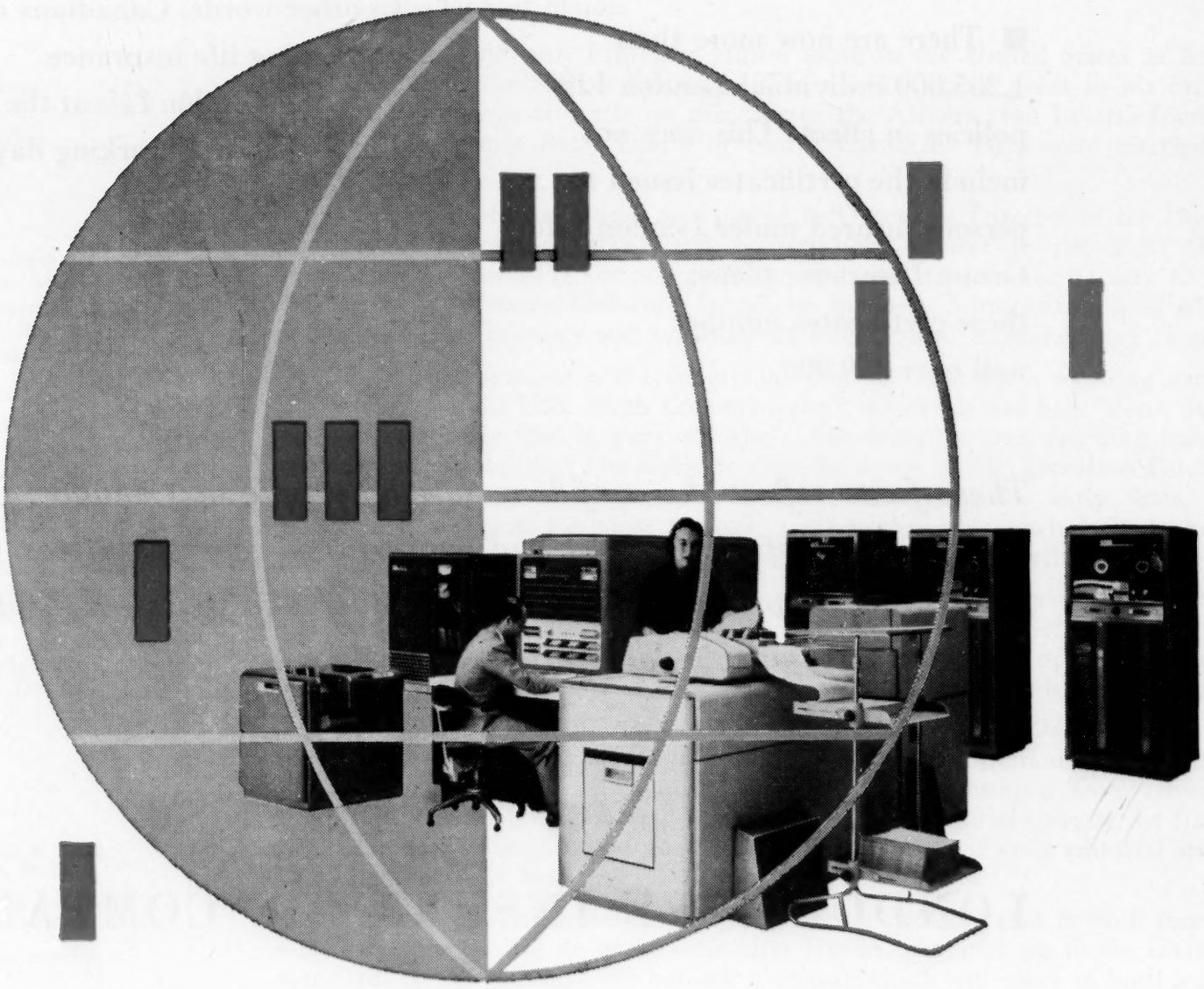

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VOLUME XXIII FALL
NUMBER 3 1958

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Arthur Gordon Huson, 1913-58

The writings of Professor A. Gordon Huson have been well known to readers of this publication for some years. His incisive and entertaining commentaries on issues of international trade and economics have illuminated many issues; his brilliance as an editor has pervaded every page. Few men could have made a scholarly journal entertaining without sacrificing the quality of its scholarship. Gordon Huson did just that.

His passing in London on August 11, 1958, will be felt keenly not only by those who knew him personally, but by the many others who knew him through the medium of his writing and editing.

Gordon Huson came but recently to academic life, and liked to describe himself as "a newspaperman gone wrong". Like most who have started their careers in journalism, he had printer's ink in his blood and continued to be a prolific author and editor in addition to his teaching.

His background was an unusual one for a journalist and teacher. His earlier interests led him into modern languages and economics, studying at the Sorbonne and the London School of Economics, where he obtained his B.Sc. (Econ.). From economics he turned to the law as a member of Gray's Inn since 1933 and a member of the British Bar since 1946.

Gordon Huson began his working career as a civil servant, editing statistical publications and later acting as Public Relations Officer for the London County Council. In 1937, he became assistant Financial Editor of the *News Chronicle* and local government correspondent for the *Economist.* He served with distinction in the British Intelligence during World War II, attaining the rank of Major.

Following the war, Professor Huson came to the United States as Economic Officer at the British Embassy. This was a turning point in his career, for not only was he to settle on this side of the Atlantic, but he also found a bride in the former Betty Dixon of North Carolina. They were married in 1950.

In 1949, Professor Huson was posted to Ottawa as Director of the United Kingdom Information Office and Information Adviser to the U.K. High Commissioner. In 1952, he accepted an invitation to join the faculty of the University of Western Ontario's School of Business Administration as editor of the *Business Quarterly* and professor of international economics and finance.

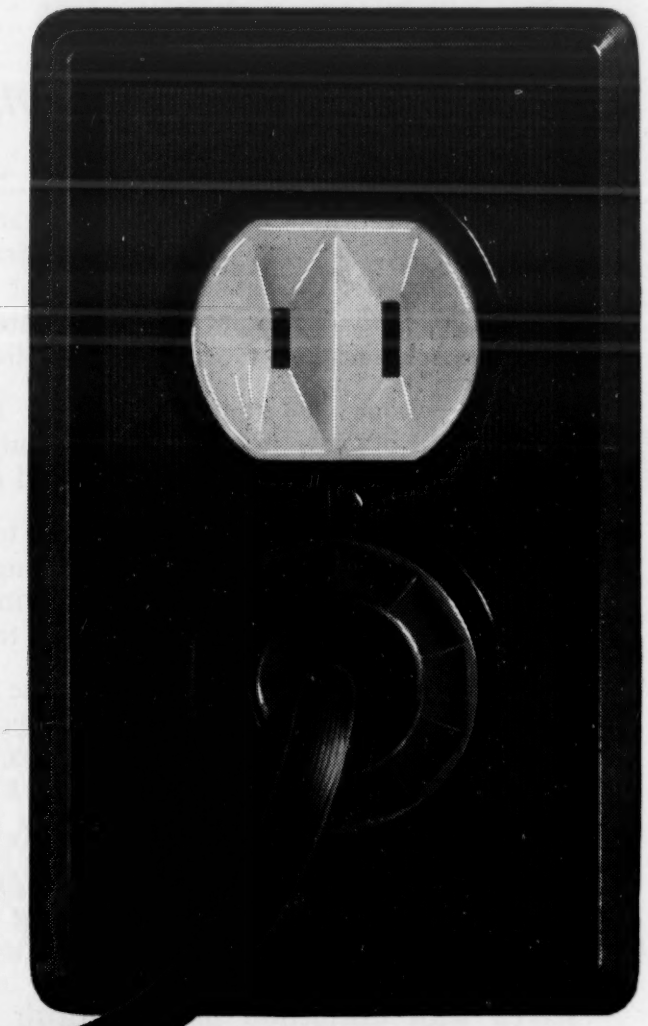
It was not without some misgivings that he took up a teaching career. His superior in the U.K. High Commissioner's office advised him "don't do it; you can always do that in your old age". But within a year, teaching became virtually his whole life. The week he died, he wrote to Mr. Davidson Dunton, incoming president of Carleton University, describing his early fears, but adding: "it has been the most rewarding experience of my whole life, and if you enjoy it half as much as I have you will find it well worth while."

Gordon Huson put on the teacher's mantle as if it had been made for him. His ever-cheerful disposition, wit, and knowledge of his field made him a natural teacher. He was instrumental in putting the teaching of Foreign Trade at Western on a sound and challenging basis, as his many students will testify.

At the same time, he devoted himself to turning out a *Quarterly* that met the highest professional standards. Under his editorship, circulation was built up, editorial standards maintained, and the format revamped from cover to cover. But his main task he saw as building a good editorial content; he firmly believed that circulation and advertising would follow if only editorial standards could be kept high.

Those of us who remain will agree without question that in both respects —as a teacher and as an editor—Gordon Huson measured up to the difficult standards he set himself. He has left a record which will serve as both a goal and an inspiration to all who knew him.

F. W. P. JONES, Dean,
School of Business Administration,
University of Western Ontario.



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About Our Authors

Mr. Thomas H. Carroll is a Vice President of the Ford Foundation. Among his responsibilities are the overall supervision of the Program in Economic Development and Administration, which involves the Foundation's interests in business administration. His knowledge of this field is built upon many years as a teacher, researcher, and Dean in American schools of business administration. He also served for several years as a member of the Executive Committee of the American Association of Collegiate Schools of Business. Mr. Carroll is a graduate of the University of California (Berkeley), and holds a Doctor's degree in Business Administration from Harvard University. From 1950-54, he was Professor and Dean of the School of Business Administration at the University of North Carolina, and for the preceding five years was Dean and Professor at the College of Business Administration at Syracuse University. Prior to service in the U.S. Naval forces during World War II, he taught Business Policy and was Assistant Dean at the Harvard Business School. Over the years, Mr. Carroll has written articles for a number of economic and management journals. He edited and contributed to a volume entitled *Education for Business Competence and Responsibility,* which was published by the University of North Carolina Press in 1954.

Dr. Donald H. Thain, Assistant Professor of Business Administration at the University of Western Ontario, studied at the University of Toronto prior to obtaining his M.B.A. and D.B.A. from Harvard University. He spent three years teaching at Harvard, coming to Western in 1956. As a consultant to a leading Canadian advertising agency, he has recently engaged in marketing planning operations for several companies; some of the problems encountered prompted his article.

Dr. Robert J. Uffen, Professor and Head of the Department of Geophysics, U.W.O., is a registered professional engineer in Ontario, and Consultant Geophysicist to Kennco Explorations (Canada) Ltd., and the Utah Construction Co. He is also a member of the National Research Council advisory committee on Geodesy and Geophysics and a member of the National Advisory Committee on Research in the Geo-

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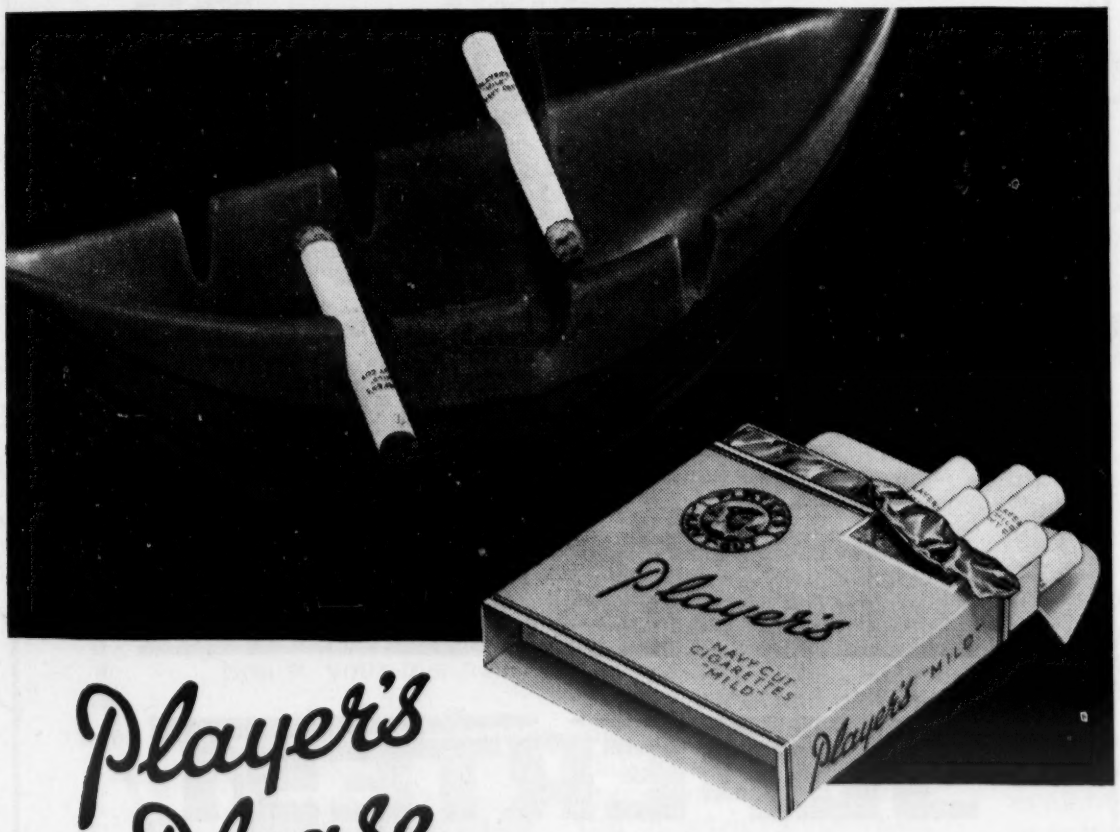

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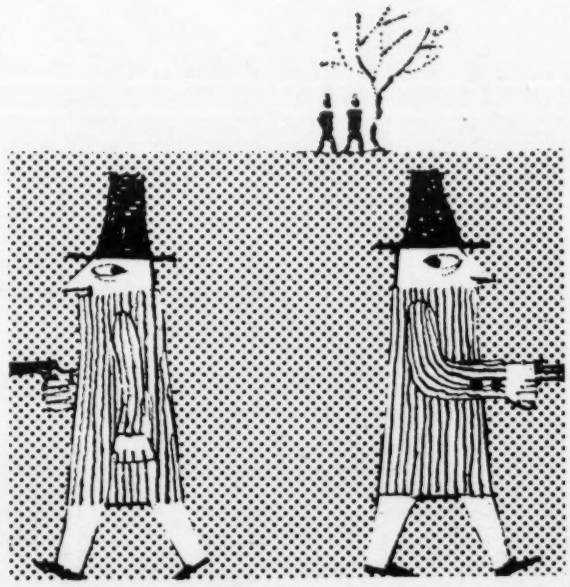
About Our Authors (cont.)

logical Sciences. His previous article entitled "The Future of Mineral Exploration in Canada" appeared in the Winter 1956 edition of the *Business Quarterly*.

Frank L. Fournier — A geologist, prospector and engineer, Frank L. Fournier's search for oil has taken him across Canada and to many parts of the world. Born in Sturgeon Falls, Ontario, he was educated in Vancouver, B.C., and after graduating in geology from the University of British Columbia in 1929, was engaged with the Skelly Oil Co. in Tulsa, Okla. Since then he has held a number of key positions with leading oil companies, including Senior Geologist for the Standard Oil Company in Egypt and Ecuador, and Advisory Staff Geologist and Secretary of the Producing Committee for Imperial Oil Ltd. Prior to establishing his own consulting practice, he was for four years General Manager and Vice-President of the Calvan Consolidated Oil & Gas Co. Ltd. in Calgary. Mr. Fournier is presently General Manager and President of the Bluewater Oil and Gas Ltd., engaged in oil and gas exploration in Southwestern Ontario.

John J. Graham, currently an instructor in finance at the School of Business Administration, U.W.O., obtained his M.B.A. at Western in 1958. Prior to this he spent five years with the Bank of Montreal, after having obtained his B.A. from Assumption University in Windsor. One of his recent duties at the Western Business School was the compilation of a prospectus library.

David S. R. Leighton, Associate Professor of Business Administration at the University of Western Ontario, is acting editor of the Business Quarterly. A former reporter and editor with The Canadian Press, he obtained his Master's and Doctor's degrees from Harvard University in 1953 and 1956 respectively. He teaches courses in Marketing and Marketing Research at Western.



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Ottawa Newsletter

PATRICK NICHOLSON

Some 105 new Members came to Ottawa for this summer's session. How unlike Shakespeare's "whining schoolboy" they were, who "with his satchel and shining morning face creaped unwillingly to school".

How would those new Conservatives stand up to the inevitable parliamentary inactivity forced upon back-benchers? Would the prominent lawyers, wealthy businessmen, brilliant doctors and other civil life successes among them tolerate their inactive listening and voting role as rookies in the House?

As the session ended, I discussed this with one successful businessman-M.P., who had been remarkable for his constant attendance and full-blooded attention in the Chamber. I asked him how he enjoyed his job as "Welfare Officer" for 18,000 rural voters and their dependants.

He was taken aback, but after thought he agreed that my phrase aptly summed up the most time-consuming task of today's member of parliament in our welfare-state era. The enormous daily mail comes largely from those seeking the free ride or even free rides which they consider themselves entitled to receive at the taxpayers' expense, whether it be a pension, a job, a contract, a compensation or a deal.

The Diefenbaker Cabinet Minister, of course, is a person for whom leisure, family life, regular hours and even holidays are no more than a fond memory. I have never seen a Cabinet work so hard at routine administration. In the 15 months since he became Prime Minister, John Diefenbaker has never had time for the uninterrupted consideration and discussion with his colleagues which are needed to frame policy.

Ex-Cabinet Minister J. W. Pickersgill has admitted that the former Liberal administration lacked the time for such exercises too; and he attributes its defeat at the polls largely to the fact that the Ministry never produced a new idea.

C.C.F. leader Hazen Argue recently described C. D. Howe as having been a great "pragmatist" in government. That lack of a comprehensive and consistent national policy in Howe's time is, Liberals believe, still extant today. Thus Opposition Leader Lester Pearson chided Mr. Diefenbaker for proposing aid to the prairie farmers, without giving a comparable benison to other primary producers, such as fishermen.

Our business tycoons of course are too busy making money to have time to study politics. But if they did follow these events, what would they think of applying modern government principles to their commercial life? Would an Oshawa executive spend every day signing payroll cheques and supervising the production of this year's model, and give no thought to planning the 1959 models?

In this respect the democratic system of government has been left behind by the efficiency experts who call themselves dictators.

There is a need for two innovations in our system. One is an inner planning committee of the Cabinet, perhaps comparable to Mackenzie King's War Cabinet Committee; while to lighten the administrative load of Cabinet members, each Parliamentary Assistant should become more actively a junior Minister outside the Cabinet.

The second need is for a sort of continuing "Gordon Commission on Canada's Economic Prospects", with wider terms of reference, which would supply the background research, review and recommendations needed by the Cabinet in long-range planning. Such a group would research the means and the need for keeping the various sections of our economy in balance; relating wages and prices; and co-ordinating with fairness the price of prairie wheat with wages in Nova Scotia's coal mines; and weighing the merits of researching our own fighter planes or buying from our friends.

Work of that type can best be performed by experts attuned to the brutal frankness of competitive private enterprise. The civil service mind in contrast is conditioned to implementing the policies laid down by politicians; it is an outworn myth to suggest that civil servants are ideally suited to assist politicians frame policies.

But how can a government obtain jewels from private enterprise at the wages offered in the civil service, and without their glitter being dulled by the climate of bureaucracy?

Alfred Milner faced this problem when he was High Commissioner in the formative years of the Union of South Africa. He recruited into "Milner's Kindergarten" the best brains graduating from Oxford University, every one of whom later achieved brilliant success in diplomacy, international affairs, commerce or finance. President Roosevelt approached a similar problem during World War II by enrolling "Dollar-a-Year" men.

During Cold War II, a realistic approach to this need might be to urge big corporations and similar employers, who have cornered the abilities which the nation needs, to contribute the services of appropriate experts to the state as a patriotic duty, for terms of two or three years each.

Washington Newsletter

JAMES M. MINIFIE

There are signs that this oddest of recessions may have run its course, always provided that major strikes do not set recovery back again. There are 5,000,000 unemployed, but most Americans are still more worried about how to diet and where to park their car.

It is the only recession on record which has been accompanied by a steadily rising cost of living and where equity yields are well below those of the finest U.S. government bonds. The stock market is betting on inflation. What other explanation is there for its persistent rise in face of official discouragement, broadened margins, and higher Federal Reserve rate? Certainly it cannot be found in company earnings. For the first six months these—with the exception of a few special defense firms—were uniformly lower and characterized by a marked failure of costs to drop in the same rhythm as income.

This fact alone will insure continued national deficits. A recent corporation report showed taxation for 1957 at $70,000,000; provision for anticipated 1958 taxes: $19,000,000—a drop of $51,000,000 in the Treasury take. The Federal budget should anticipate many of these rib-jolters. The trend will be intensified by the policy of many companies in buying up smaller businesses with good prospects but currently in the red, which permits them to absorb some bookkeeping losses for tax purposes.

The Department of Commerce expects that the fourth quarter will see the end of the long decline in expenditures for plant and equipment which has been one of the chief factors in the recession. It anticipates a slight upturn, in fact. Unfortunately, its record has been consistently over-optimistic. The figures for the second quarter show plant investments at $30 billions compared with the 1957 peak of $37¾ billions. However, even by the Department's crystal ball, railroad expenditures will continue downward.

Every estimate must take account of the grave possibility of strikes. The Administration, and to a large extent the non-union public, are convinced that the link between wages and cost of living inexorably induces an inflationary spiral. The unions have not accepted this yet, and have rationalized their refusal to do so by pointing to the fantastic profits made in the boom years by the steel and auto giants, and particularly to what they charge is the steel industry's habit of quickly recovering wage increases — and more also — from the consumer. The prestige of leaders like Walter Reuther is at stake, and indeed the basic nature of the American economy may be colored by what happened in the labor field this fall.

In face of this that incorrigible optimist, the American investor, indulges in glowing dreams of fabulous expansion in the Golden Sixties. This is the bonanza to be mined when the wartime boom babies begin marrying and raising families of their own, with consistent demand for houses and cradles, cribs and bibs, kiddie-cars and motor-cars, and all the apparatus of parenthood which keeps men working and playing too hard to get into mischief or out of debt.

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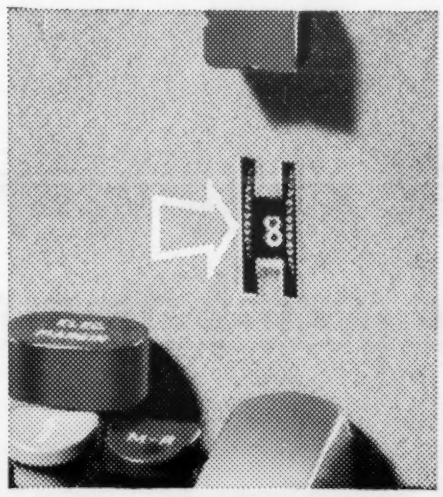

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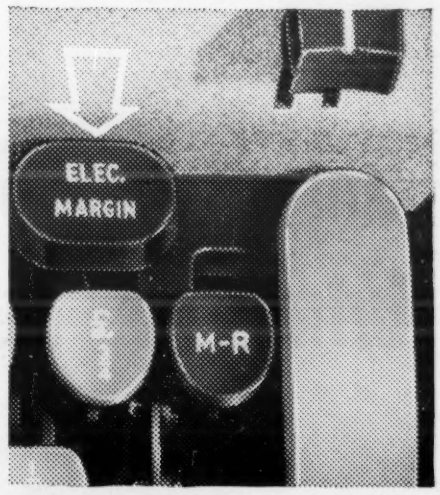

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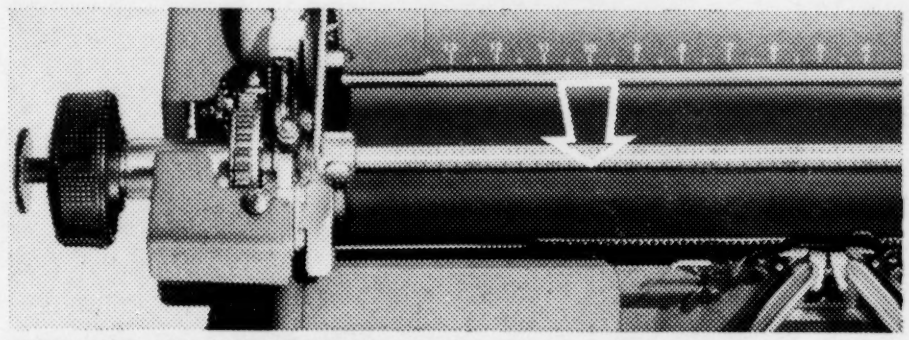

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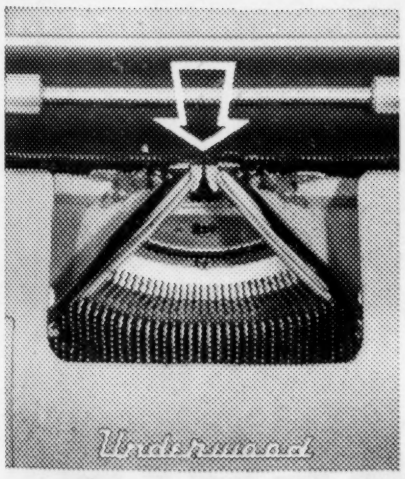

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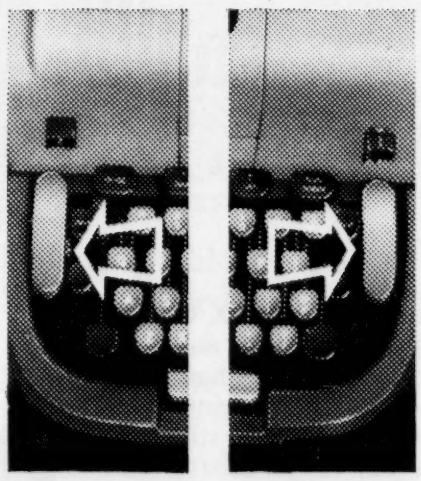

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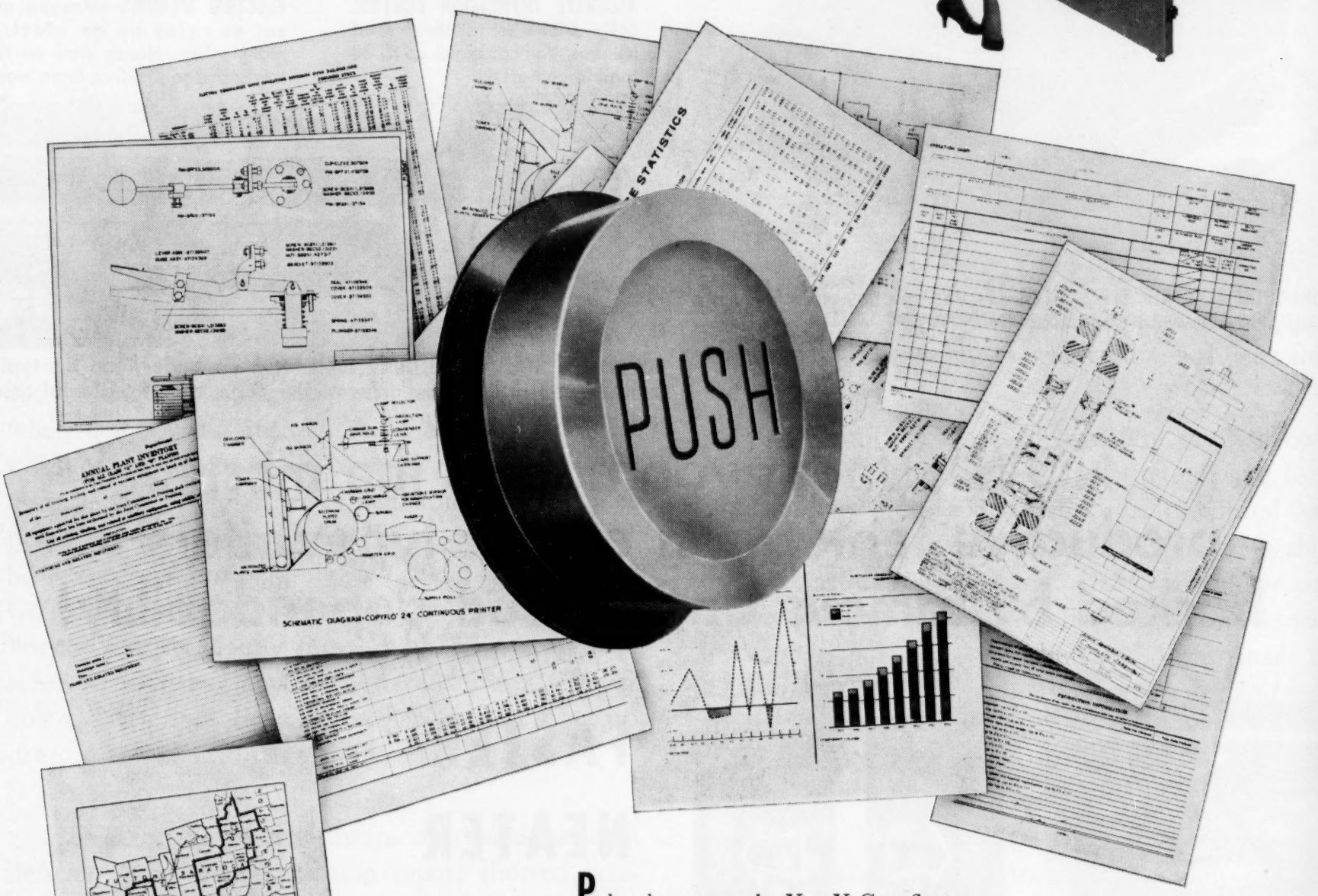

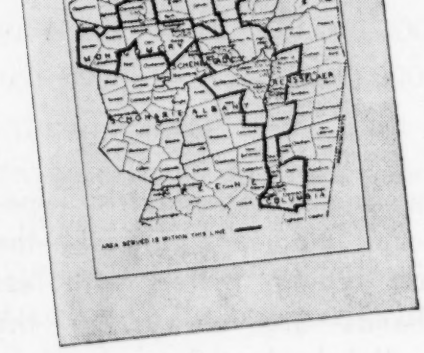

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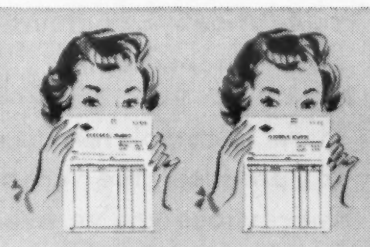

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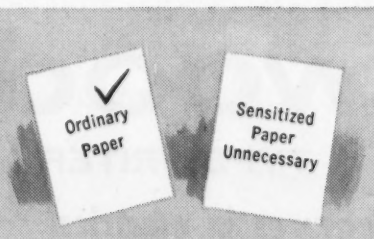

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Where is Business Education Going?

Business education, both in the United States and Canada, has made great strides in the last half-century. But where is it going? What are the major forward thrusts in this field today? What avenues seem most promising for future development? In this article, a leading educator and vice-president of the Ford Foundation discusses business education, today and tomorrow.

THOMAS H. CARROLL

TO ask "Where Is Business Education Going?", presumes that business education is going somewhere. One or two decades ago this might not have been such a safe presumption. It definitely would not have been 20 to 30 years ago. From my particular observation point in a large foundation in the United States, rapid progress appears to be fairly certain for the near- and middle-term future.

Although my personal knowledge of this field has been principally based on experience in the United States with much less intensive "exposure" in Europe and in the Near and Middle East, I believe that what I will have to say applies to the situation in Canada as well as to that in my own country. It appears to me that the basic problems being faced in this field, although not identical, are substantially similar for Canada and the United States.

It is not so much that the basic problems of business education are *different* today. Indeed, in a study prepared in 1930, J. H. S. Bossard and J. F. Dewhurst made observations which are quite familiar to students of this field of education today.[1] The needs of business have changed, of course, and the consequent demands upon business education are more pressing. The increase in numbers of students in the face of alarmingly limited sources of professor supply[2] has alerted not only the administrative leaders but a large majority of all faculty members and research workers in business education to the problems and the opportunities. It would appear, then, that the prerequisites for effective action are at hand or at least in process of development.

[1]J. H. S. Bossard and J. F. Dewhurst, *University Education for Business; a Study of Existing Needs and Practices,* (University of Pennsylvania Press, 1931).

[2]For a fuller discussion of these factors and their implications, see *Faculty Requirements and Standards in Collegiate Schools of Business* (American Association of Collegiate Schools of Business, 1956) and Thomas H. Carroll, *Business Education for Competence and Responsibility* (The American Association of Collegiate Schools of Business, 1956).

THE FUNCTION OF BUSINESS SCHOOLS

The reasons for promise of accelerated progress in business education just now are not accidental. The first collegiate school of business on the North American continent was established as the Wharton School of the University of Pennsylvania in 1881. Many business schools had come into being by the outbreak of World War I. The curricula were originally designed to train persons for careers in accounting, purchasing or marketing by teaching them the techniques of the trade. In recent years, however, business executives as well as professors have increasingly come around to the view that the business firm is a better place to learn "how-to-do-it" techniques and the function of the business school is to provide an appropriate background for careers in business. The fundamental question then becomes: How can the business schools best perform their function?

The Ford Foundation has been concerned with problems of business education since 1954 when the Program in Economic Development and Administration was established. The director of that program during 1955-57 was Lloyd G. Reynolds, a distinguished alumnus of the University of Alberta. He is now back at his post at Yale University as chairman of the department of economics. For the past two years a comprehensive staff study of the ade-

quacy of business school curricula has been under way as part of this program. Its director has been Professor R. A. Gordon, who has served the Foundation on leave from his faculty post at the University of California in Berkley. Dr. Gordon's group is focusing its attention on the adequacy of business school curricula to provide competence in business, broadly construed. They have found it necessary to re-examine the organization and functioning of the business firm in order to gain a more precise picture of the range of activities and responsibilities which are involved. Although the final results of this study are not yet available, the Foundation has had the benefit of progress reports and has taken some steps to strengthen and expand the scope of education for leadership in business and industry.[3]

From time to time the question has been seriously put to us whether there is any function at all for business schools. The purpose of a business school, so the argument goes, is simply to provide an appropriate background for careers in business and this can best be accomplished through a combination of a liberal arts education at college followed by on-the-job training. Those who hold this view refer to the types of techniques taught in business schools with a vocational approach. They find it easy to demonstrate that these techniques are all too often some 10 to 20 years behind those used in dynamic business enterprises. In comparison, they contend, a successful liberal arts training provides a person with the basic abilities and skills that can be applied to the changing needs and circumstances of his business career.

In his *The Aims of Education*, published in 1929, the great philosopher Alfred North Whitehead gave a vivid description of the potential contribution of broad educational training to a business career. He stated, in part:[4]

"Today business organization requires an imaginative grasp of the psychologies of populations engaged in differing modes of occupation; of populations scattered through cities, through mountains, through plains; of populations on the ocean, and of populations in mines, and of populations in forests. It requires an imaginative grasp of conditions in the tropics, and of conditions in temperate zones. It requires an imaginative grasp of the interlocking interests of great organizations, and of the reactions of the whole complex to any change in one of its elements. It requires an imaginative understanding of laws of political economy, not merely in the abstract, but also with the power to construe them in terms of the particular circumstances of a concrete business. It requires some knowledge of the habits of government and of the variations of those habits under diverse conditions. It requires an imaginative vision of the limits of human nature and of the conditions which evoke loyalty of service. It requires some knowledge of the laws of health, and of the laws of fatigue, and of the conditions for sustained reliability. It requires an imaginative understanding of the social effects of the conditions of factories. It requires a sufficient conception of the role of applied science in modern society. It requires that discipline of character which can say 'yes' and 'no' to other men, not by reason of blind obstinacy, but with firmness derived from a conscious evaluation of relevant alternatives."

The president of one of Canada's large companies is quoted as saying he had 50 younger executives, each one well qualified in such fields as engineering, sales, accounting, and advertising, but not one of them ready to succeed him. When asked why, he replied that none of them knew enough about public affairs, or national and international affairs. Worse than that, he believed that "none of them has a framework or a scheme of values against which to cast and evaluate the needed knowledge." And he stated further, "worst of all, none of them seems to realize that he lacks anything."[5]

NEED FOR SPECIALIZATION

However, it is one thing to say that a liberal arts training is desirable and quite another thing to say it is enough. Specialization is needed as well. Although the requirements of leadership in industry are broad, specialization is still needed at the lower and intermediate levels; an individual ordinarily begins his business career as a specialist, e.g. in the laboratory or in a functional department, such as marketing. This undoubtedly is the explanation for the phenomenon which William Whyte observes in his book, *The Organization Man*: "Between 1953 and 1956 the number of business speeches bewailing over-specialization increased. So did the demand for specialists." In other words, specialization becomes less and less adequate as the individual advances toward greater and greater executive responsibility.

It does not follow that the specialist may not also be well educated. As W. E. Phillips, Chairman of the Board of Governors of the University of To-

[3]The Carnegie Corporation has made a grant to Swarthmore College under which Dr. Frank Pierson, Professor of Economics, is conducting a related study of business education. This is one in the series of studies of professional education supported by that foundation.

[4]Alfred North Whitehead, "Universities and Their Function" in *The Aims of Education and Other Essays,* (The MacMillan Company, 1929), p. 141-42.

[5]Robert A. Goldwin and Charles A. Nelson, editors, *Toward the Liberally Educated Executive,* (Fund for Adult Education, 1957), pp. 75-76.

ronto, stated in a recent issue of *The University of Toronto Quarterly*:[6] "There is a widespread feeling that specialists cannot be well educated, that the nature of their training prevents them from being intellectually curious, imaginative, and interested in the work of others. This view is untenable: nearly all well-educated persons are, in the last analysis, specialists . . ."

What we must seek is the optimum combination of liberal education with specialization. It is now generally accepted, I believe, that the ideal preparation for a business career is a liberal arts program at the undergraduate level followed by effective specialization at the post-bachelor professional level. But it is idle to hope that this will be the pattern of education for the great mass of business graduates in the foreseeable future. Undergraduate programs in business will be with us for a long time. Accepting this, it has been and is our aim at The Ford Foundation to help strengthen and liberalize them.

CURRENT APPROACHES

The Foundation has supported two attempts to explore approaches to the optimum combination. They come at the problem from opposite directions. The School of Business at Northwestern University is attempting to integrate the relevant social sciences and humanities into its undergraduate business curriculum. It has been brought to my attention that the School of Commerce and Administration at Queen's University has a similar approach. According to the Calendar of this School: "The content of the undergraduate course was planned so as to combine a cultural background with a working knowledge of the techniques of business management—but not the second at the expense of the first."

Many of us have personally experienced the fact that liberal arts subjects can be taught in an illiberal or merely informative way. And business subjects can be taught in a liberal way. Indeed, the way in which a course is taught is *the* critical factor. For example, a course in business law can become a means for transmitting a set of legal rules or it can be used as a truly liberating vehicle in education with emphasis on moral and ethical values as they are applied by individuals in the business setting.

Liberal arts colleges frequently offer courses in the field of business, but they are all too often limited in perspective and represent neither satisfactory undergraduate education for careers in business nor adequate liberal education. The Ford Foundation has supported an experiment by Grinnell College in Iowa with the development of business subjects suitable in nature and content for a liberal arts curriculum. These deal with business broadly as a basic institution of society.

Graduate schools of business face curriculum problems of a different kind. They are in a position to presume a certain minimum liberal arts training and concentrate specifically on professional training for business. Professor Gordon has recently stated that the separately established, so-called graduate schools of business are looking with increasing disfavor on an undergraduate concentration in business administration as a background for their graduate programs.[7] Their problem is to determine what range of subjects provides the most appropriate training for a business career.

The relevance of economics has always been apparent; indeed, business administration is sometimes thought of as synonymous with applied economics. More recently, however, there has been a growing awareness of the relevance of other disciplines, such as the behavioral sciences and mathematics. This has been reflected, on the one hand, in the appointment to professional business faculties of persons whose advanced training has been in mathematics, statistics or a social science other than economics and, on the other hand, in the encouragement of outstanding persons in these disciplines to engage in research on important business problems without making any shift in institutional domicile.

Forrest H. Kirkpatrick, a Wheeling Steel Corporation executive, has aptly said "the graduate should have acquired basic understandings and values along with techniques of analysis, and there must always be the realization that these techniques and knowledge find expression in the dynamism of [modern] life.

"Management is not yet a science, but an art immensely and increasingly benefited by the application of scientific methods to its many complex and inter-related parts. Business education is concerned with teaching the student the science and the art in such a way that he may be able to deal with problems not yet identified and with methods not yet devised."[8]

[6]"From the Board Room Window", *The University of Toronto Quarterly,* July 1957, p. 500.

[7]R. A. Gordon, *Business Education at the Undergraduate Level,* an address delivered at the Convocation Commemorating the Fiftieth Anniversary of the Founding of the College of Business Administration, the University of Denver, April 24, 1958, p. 7.
The Graduate School of Business at Stanford University has indicated that for persons with undergraduate majors in business administration, special permission will be required for admission.

[8]*Collegiate Business Education in the Next Quarter Century,* Proceedings of a Meeting Commemorating the Fifth Anniversary of the Founding of the West Virginia University College of Commerce (Bureau of Business Research, College of Commerce, West Virginia University, February 1958), p. 15.

CURRICULUM CHANGES

A number of business schools are now engaged in major curriculum revision in the light of modern knowledge and business requirements. Among other things, this involves a reconsideration of the value of a large number of courses in specialized subjects which have proliferated over the years. It is safe to predict that when the new curricula go into effect, the subjects will be broader in scope and less specialized. For example, accounting, statistics, budgeting, forecasting, reporting, quality control, recording and operations research might be combined under the more general field of quantitative methods in business. In addition to quantitative controls, a basic business curriculum might include economics of the firm, finance, production, marketing, human relations, organization and administration, and government and business relations. A firm grasp of the basic principles applicable to each of these areas would constitute an invaluable background for a career in business.

The need to provide executives with the type of background and training needed for top management responsibility at the appropriate time accounts for the growth, among most of the leading schools and some of the others, of "executive" or "advanced management" programs. Starting with the Sloan Fellowship Program at M.I.T., the Advanced Management Program at the Harvard Business School, and the Executive Program at Chicago, the idea has spread to perhaps 50 institutions on this continent. These management programs vary widely in scope. They may be for middle or top management persons who come to the campus for periods from a few weeks to a full academic year in order to freshen their thinking, acquire or sharpen their abilities to use tools of analysis, increase their power of analysis, and broaden their views. Some institutions have emphasized special liberal arts programs to broaden executives who have provided themselves in specialized posts of responsibility and who are looked upon as potential top managers. Faculty members in all these programs benefit through their better acquaintance with managers and management problems.

THE CASE METHOD

The clinical approach, especially in the training of business practitioners, is one of the most influential forces in business education. This approach is typified by the case method which is used largely or in part at numerous business schools throughout the world, both undergraduate and graduate. There are, in fact, few institutions where at least some of the courses do not employ this method. One critic of the case method has questioned whether practice with "stuffed animals" is "the right kind of training for climbing into a cage of raging lions". Surely he was not thinking of the lecture method as the only effective alternative! He might not have understood that a "case" is not used merely as an illustration of business practice, but as a device to subject the student to the type of intellectual process that it is assumed he will be called upon to perform in the business world: the process of arriving at decisions after consideration of complex data that must first be sorted out from a welter of irrelevant information.

With the spread of the case method in business administration teaching, there has been a recent movement toward a decentralization of case gathering activity. This reflects an appreciation of the values for the faculty member of involvement in the case production process. At more and more institutions, faculty are going out into the field, developing their own cases, and absorbing at first hand the flavour of actual business operations. This development has been aided by a foundation-supported summer seminar on the production and teaching of cases, conducted at the Harvard Business School. The program is about to enter its fourth year. Faculty members of schools of business are selected for intensive training under fellowship appointments in case research, case writing, case teaching, and grading. Professors from the University of Western Ontario and of Dalhousie University have participated in this seminar.

An active "alumni association" of participants worked out basic plans for setting up a clearing house mechanism for the exchange of original cases and for encouraging their production and use at their home campuses. As a result, the American Association of Collegiate Schools of Business has established an inter-collegiate clearing house for case materials which is being managed for it by Harvard on a three-year trial basis. A bibliography of available cases is being published and, on request, free samples of cases will be furnished to college teachers.

It is interesting to observe, incidentally, the extent to which centres of instruction in business administration abroad look to the case method as a promising way of introducing training in business administration in places where none has previously existed. For example, at Lille in the northern textile district of France, at the University of Istanbul in Turkey, at Turin in the industrial heart of Italy, and at the University of Rangoon in Burma, business educators are actively engaged in preparing "home grown" cases.

OTHER APPROACHES

Another important—and considerably newer—development in modern business education is the school that directs itself toward academic disciplines underlying business administration, i.e., the social sciences primarily, but also mathematics, the sciences and engineering. Two leading proponents of this so-called "scientific approach" are the Graduate School of Industrial Administration of the Carnegie Institute of Technology and the School of Industrial Management of the Massachusetts Institute of Technology. The faculties of both these institutions include a variety of social scientists and persons trained in mathematics; they have few men technically trained in science and engineering. Both are research-oriented to a high degree. This is a significant fact. A practising profession does not make substantial forward strides through the perfection of procedures, but through scientific discoveries and new insights which sometimes seem of little immediate relevance to current practical problems.

Under this approach, management problems are not dealt with in terms of their surface manifestations. Instead, an effort is made to fill gaps in the fundamental knowledge necessary to solve the basic, underlying problems. For example, in an effort to understand how decisions are made in a business firm, Carnegie Tech researchers are trying to develop an "empirically testable theory of human higher mental processes" by using large-scale computers for simulation and study of human thought processes. In other words, they are developing a "thinking machine" for the purpose of devising and testing a new body of theory about the nature of human rationality in complex situations. This machine is already capable of playing chess and proving theorems in symbolic logic. By studying how the machine "thinks", the researchers hope to reconstruct the thought processes that we call judgment. This theoretical approach is complemented by down-to-earth field study of actual decision-making processes in business organizations. In order to follow through a single complete policy decision, one or two staff members are assigned full time to an organization for prolonged periods. The enormous body of data obtained in this way is then translated into forms needed to make it relevant for possible generalization and theory.

A research program on the application of electronic computer techniques to a study of the dynamic behaviour of economic systems and industrial organization has been developed at the Massachusetts Institute of Technology. Professor Jay W. Forrester, a scientist who invented the Whirlwind digital computer, has redirected his activities to the area of business decision-making and is the leader of this research activity.

Some sceptics have looked upon these developments as an attempt to have the machine replace the executive in actual decision-making. This is little short of nonsense. The basic decisions will still be made by men. Thomas J. Watson, Jr., IBM president, has put it this way: "In this electronic age man must still do the creative thinking. The calculating machine can help rearrange thoughts but it can not speculate." The objective is to provide the executive with a greater amount of reliable data more quickly and in more readily usable form.

In a different direction from these "Buck Rogers" approaches, other schools are placing an increased emphasis on the role and effect of the business firm in contemporary civilization. For lack of a better term, we might call this the "societal" approach. At the Columbia Graduate School of Business a new curriculum is being designed to set effective training for skills in business management within such a broad perspective. This program emphasizes basic and often neglected aspects of the business firm within the contemporary institutional and cultural framework.

BUSINESS GAMES

A more recent technique for training business executives in decision-making is the so-called business game. The first of these games intended to simulate business decisions was developed by the American Management Association. The idea goes back to the war games which have been played by the military for some time. Similar games have been or are being developed at other places including the Carnegie Institute of Technology, the University of California at Los Angeles, and the University of Washington. These games are played by groups or teams and computers are used to simulate the interconnection between groups. For example in the A.M.A. game the teams make decisions on price, production, marketing, research and development, plant investment and market research and the computer, which is an IBM 650, works out the "consequences". For each team the consequences consist of information about itself, its competitors and the market as a whole.

With the passage of time business games may take their place with the case method as one of the standard teaching methods in schools of business administration. It is well to consider the values of the several teaching methods and to develop a proper "mix" at each institution. Whatever methods are used, it is not enough merely to provide training in

business practice, even the currently best business practice. One proper function of the business school is to develop well the student's power of analysis. This involves, of course, development of his ability to use the tools of analysis. Another important function is to make possible the improvement of both business policy and practice—to lead, not to follow business. This can only be achieved through research.

As a digression, you might be interested in the way in which the problem of "how best to manage industry" is tackled in Soviet Russia. The following description is given in a folder currently available at the U. S. S. R. Building at the Brussels Fair. It says, *in full*:

"Recently the governing bodies of the Soviet state and the Communist Party were faced with the question of how to improve management of the country's rapidly growing industry. They made public their suggestions and invited all citizens to make theirs. It is estimated that over 40,000,000 adults took part in the country-wide discussion in the press and at public gatherings. Their ideas and suggestions received the due consideration of the Supreme Soviet when it voted for the law which ushered in new forms of management for industry and construction.

"With the centre of gravity in managing enterprises and construction projects shifted to economic administration areas, far greater numbers of working people will have their say in economic development." There is just a little element of fantasy in this report that the ideas of 40,000,000 people led to the adoption of new forms of management which were "ushered in" by law!

NEED FOR RESEARCH

Getting back to realities faced in countries such as Canada and the United States, the necessity for the development of a research orientation in business schools cannot, in my opinion, be emphasized too strongly. There are a number of reasons for the lack of a research tradition in most business schools. For one thing one might expect research to be carried on most profitably by persons who hold the doctor's degree, for which research training is such an important element. In the past, a substantial proportion of faculty members of business schools have not held the doctorate, especially those teaching part-time. In this connection, it is interesting to note that one of the standards for membership in the American Association of Collegiate Schools of Business provides that *at least* 50 per cent of the teaching credit hours should be taught by full-time teachers with terminal training. While this standard recognizes the potential teaching contribution of the experienced business practitioner, it recognizes simultaneously, in effect, the need for advanced training as an underpinning for promising research efforts.

As a small, but we hope not inconsequential, contribution to remedying this training defect in business education faculties, The Ford Foundation inaugurated three years ago a three-fold Fellowship Program in Business Administration. Fellowships are offered on a competitive basis to doctoral candidates at the post-master, pre-doctoral level and at the dissertation level; the objective is to increase the supply of able university teachers with so-called terminal training in this field. For those who already have that terminal training, faculty research fellowships are offered for the dual purpose of strengthening teaching and facilitating the completion of promising research on economic and business problems.

Another reason for the lack of interest in basic research in business schools is the large amount of time devoted to outside consulting on the part of faculty members who are qualified for research. It is frequently argued that the only difference between consulting and research is that the faculty member gets additional compensation for consulting. The case in which this is so is a rare one. Consulting can seldom, if ever, substitute for research designed to add to fundamental knowledge and understanding. This does not mean that consulting fails to improve teaching. It generally does. But, if it is allowed to take any substantial percentage of a professor's time, it can interfere seriously with his basic academic responsibilities. For this reason, some of the leading American faculties of business administration have voted specific restrictions on the number of days a professor may spend in this way in a designated period of a week or a month.

To some extent the excessive amount of time devoted to consulting is due to the low level of faculty salaries prevalent in institutions of higher learning generally and in schools of business administration in particular. In some countries of Europe faculty members all too frequently receive the major part of their income and spend the major part of their time away from their university posts. The solution is clear. Professors of business administration should receive academic salaries high enough to eliminate the necessity of consulting primarily to supplement their income. It could then be hoped, even expected, that professors would discriminate in their choice of outside activities, selecting only those which quite definitely promote their professional teaching and research interests.

DOCTORAL TRAINING

It seems quite natural that the universities with the strongest research orientation should most typically be those which offer doctoral programs. Up to the present time business education has concentrated on teaching at the bachelor's or master's level. In the United States the proportion of students who go on to the doctorate in the professional field of business adminisration is smaller than in any other field for which we have statistics available. It should be noted, of course, that persons with doctorates in economics and in other disciplines have served as substantial sources of business school faculty members. As a parallel to the development of the professional doctorate in law, however, there seems to be a real need for increased numbers of terminally-trained persons in the professional field of business administration. They may be expected to complement those with specialized advanced training in a basic discipline alone; indeed, there should be mutual intellectual stimulation. It would hardly be an over-statement to assert that neglect of doctoral programs leads to a poverty of research and a consequent failure to provide the seeds of continuing strength for the bachelor and master level programs.

A number of graduate schools of business administration are now devoting more resources to their professional doctoral programs with a view to improving both teaching and research. The results of their efforts will, inevitably, have both a near-term and long-term effect on all of business education.

The Ford Foundation has already contributed to the financial support of a selected number of private American universities which offer doctoral programs. Each represents a different overall approach to business education. As indicated above, the Graduate School of Industrial Administration at the Carnegie Institute of Technology, a relative newcomer to this field, has developed a fresh and imaginative doctoral program which deals with management problems in terms of the basic disciplines involved, i.e., the social sciences, mathematics, the sciences and engineering. The re-invigorated graduate School of Business at the University of Chicago is embarking on a doctoral program which will be largely oriented toward the integration of social and behavioral sciences with the professional area of business administration. A unique feature of the revised program of the Columbia Graduate School of Business, referred to earlier, is the establishment on an experimental basis of a professorship in philosophy for business as part of its emphasis on what might be described as a "societal approach" to the area of business administration. Without diminishing its interest in the case approach at the MBA level, the Harvard Business School is now adding a strong theoretical emphasis for its doctoral program, especially in the areas of economic analysis, behavioral sciences and statistical methodology.

The need for greater financial support for advanced students in the field of business administration was amply shown in a 1954 survey of graduate students supported, conducted by the United States National Science Foundation. It was found that the proportion of graduate students supported is less than 7% for business administration, as compared with 62% for the natural sciences and nearly 25% for all fields combined. At the undergraduate and professional post-bachelor levels, loan funds should constitute an adequate mechanism for financial aid in view of the earning prospects of business graduates. But this reasoning can not be extended to persons who plan on academic careers in teaching, research and administration. Their comparative earning possibilities clearly do not justify large personal borrowings for their advanced education.

BASIC THEORY NEEDED

Engineering schools have been at the forefront of the new developments in operations research. The ramifications of it and of similar methods have led engineering schools increasingly toward the area of industrial management. There is good reason to expect significant contributions to business administration from some of the engineering schools in the near future.

Common to all of these program developments is an emphasis on the basic theory of the disciplines underlying business administration, notably mathematics and the social (behavioral) sciences. Perhaps the greatest possibility for developing a scientific body of knowledge on business administration lies in this direction. Let me illustrate what I mean.

Recently a conference of specialists in quantitative controls was called for the purpose of assessing the research needs in their area of interest. One might have expected such a group to concentrate on what resources and organizational arrangements are considered necessary to improve the techniques of accounting, statistics or mathematics. As it turned out there was virtually no discussion of techniques. In order to determine whether the techniques of control were adequate or whether they might be improved, it was generally agreed that one must understand fully the purposes for which the controls are to be used. Some believed that emphasis should be placed upon design of the information systems of the firm in order to improve management control and decision

making. Others felt that even this concept was too narrow and that it should be broadened to take account of how human beings respond to controls. It was the consensus that the resolution of such issues is a prerequisite to the perfection of techniques.

In order that more teachers in schools of business administration might be effectively acquainted with the significant developments, an experimental summer seminar on "New Developments in Business Administration" was financed last year by a foundation grant. This was given on the Williams College campus by an inter-institutional staff with senior faculty members from 35 schools of business as participants. The responses to this program were so enthusiastic that similar, though not identical, seminars are being planned for the summers of the current and two succeeding years.

I am thoroughly convinced that we are now on the threshold of a major change in business education. The next step may well be the development of a unified theory of the firm. The necessity for such a theory is recognized by those who are at the forefront of research in business administration. Reference has already been made to the significance of theory in the development of quantitative controls. Similarly, in the field of organization and administration the leaders are agreed that small group theory is making satisfactory progress and that in the near- or middle-run future there should be a new emphasis on analysis of the firm as a totality.

The significance of broad generalization or theory to business administration was well expressed in a recent statement by Professor Forrester of the Massachusetts Institute of Technology:[9]

"If a human activity is to develop the status of a profession, it must discover the underlying principles which unify its separate aspects. It must develop a basic theory of behaviour. It must learn how to convert experiences and particular case examples into a contribution to this general theory. And, finally, it must be able to use the basic principles of the theory as a useful, practical guide for explaining and solving new problems as they arise. By accomplishing these, management will become a true profession during the next generation."

As we look to the future we can reasonably assume that the developments I have described will spread and in the process will be adapted by different faculty members and groups. Further improvements can thus be anticipated. But there must also be new ideas, new concepts—*and* a sincere willingness on the part of faculty members to consider them with an open mind. It is my firm belief that traditions and continuity are important assets just so long as they do not lead into blind worship of the status quo. Business administration must continue to be a dynamic concept and process. It should be increasingly dependent upon rigorous basic research and forward-looking, vigorous teaching. It does not require the traits of a Pollyanna to believe that the prospects for constructive change are greater now than at any earlier time in the history of business education. Dedicated academic persons with elevated standards of (1) admission, (2) student performance, (3) faculty research, and (4) teaching can bring the promise to fulfillment.

[9]Jay W. Forrester, *Industrial Dynamics — Understanding the Forces Causing Industrial Fluctuation, Growth, Stability, and Decline.* Manuscript to be published in the July-August 1958 issue of the *Harvard Business Review.*

WHY GOVERNMENT PENSIONS?

Any pension scheme which is not fully "funded", i.e. which has not made full provision for the commitments it has undertaken, must ultimately mean the pumping out of inflationary purchasing power. Even the National Insurance retirement pension scheme is running into deficit at such a rate that it must be regarded as one of the major potential sources of inflation in this country.

The Labour Party proposals would help the equalization and redistribution of wealth. It would take more from the richer by way of increased contributions and pay more to the poorer. We may favour the principle of redistribution, but if so let it be done openly and honestly by using the existing system of graduated taxation and not under the veil of a superannuation scheme.

Let the cobbler stick to his last—the State to governing and efficient administration and the life offices to the life and endowment policies and pension schemes on which they have been cutting their sound teeth for many years past. On fair terms they will beat the State any day. In a series of pronouncements that recently appeared in our columns (and which must be short-listed for Mr. Punch's "Oscar" for rational and sophisticated advertising) the United Kingdom Provident Institution pointed out that for the weekly contribution which under the Labour Party plan would secure a pension of £9 a week at the age of 65, they—the U.K.P.I.—would at their present bonus rate produce a pension of £21 a week. No dialectic can counter the force of the argument implied in these figures.

—Lombard Lane, "Punch", June 18th, 1958.

FUEL FOR THE FUTURE

In the following article Dr. R. J. Uffen, a prominent Canadian geophysicist, takes a long look ahead to examine the world's future fuel needs and resources. The economic and commercial implications of his predictions are of first significance to all businessmen.

ROBERT J. UFFEN

There is considerable evidence that world population and the accompanying demand for additional sources of energy are increasing at a remarkable rate. Sources of supply of traditional fuels are being depleted, and discoveries of new sources and of revolutionary new fuels are disrupting the familiar pattern of world energy supply. What will be the effects of such changes as cheap Middle East oil (or the loss of it); of electric power from uranium reactors; of fusion power from sea water?

Since the needs of a generation or two hence require action at the research, exploration and development level *now*, we are obliged to attempt long range forecasts and to place our needs and resources in their proper perspective.

Forecasting the future is always hazardous, especially when the forecast itself, if heeded, may affect the ultimate outcome. At best, we can only hope to foretell the probable course of events, recognizing that there are bound to be unpredictable, and sometimes violent, deviations from our smooth extrapolations.

In this article, we shall make two basic assumptions:

(a) that world population will continue to increase for the next 50 to 100 years in much the same way as it has for the past 300;

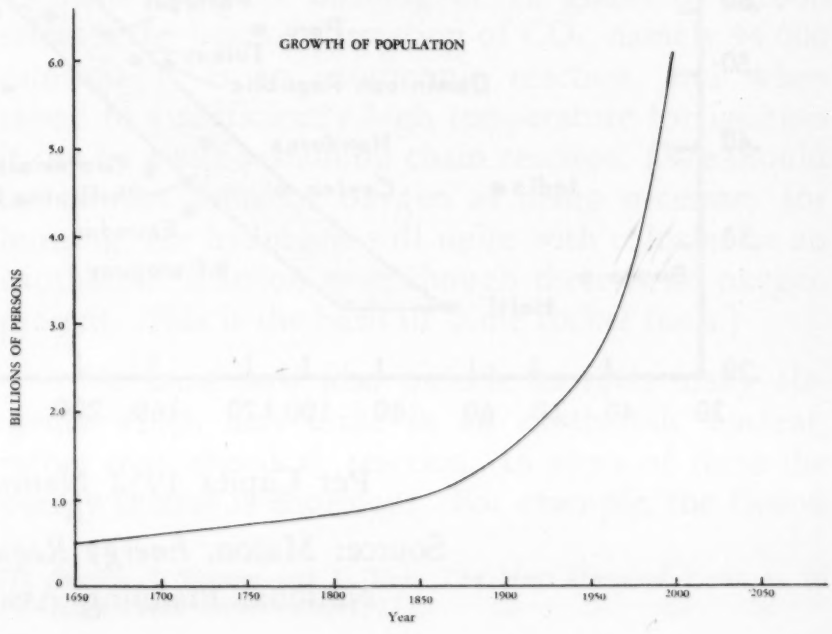
(b) that the underdeveloped nations of the world, which have by far the largest populations, will aspire to standards of living equivalent to that of Western Europe.

WORLD POPULATION AND INDUSTRIALIZATION

According to the most recent United Nations survey, a population explosion is under way which has many social, economic and political implications. Control of disease has contributed largely to accelerating the rate of growth: where once an infant had a 50% chance of surviving to adulthood and reproduction, its chance is now 90%.

World population doubled between the years 1650 and 1850, an interval of 200 years; it doubled again between 1850 and 1950, an interval of only 100 years; at present the doubling time is only 42 years. According to Fig. 1, there will be six billion people inhabiting the earth by the year 2000, and of these, four billion will be Asiatics. North American and Soviet populations are expected to increase by about 100% and European by only 40%, whereas the increases expected are, for Africa 150%, for Asia 170%, and for South America 225%.

Fig. 1

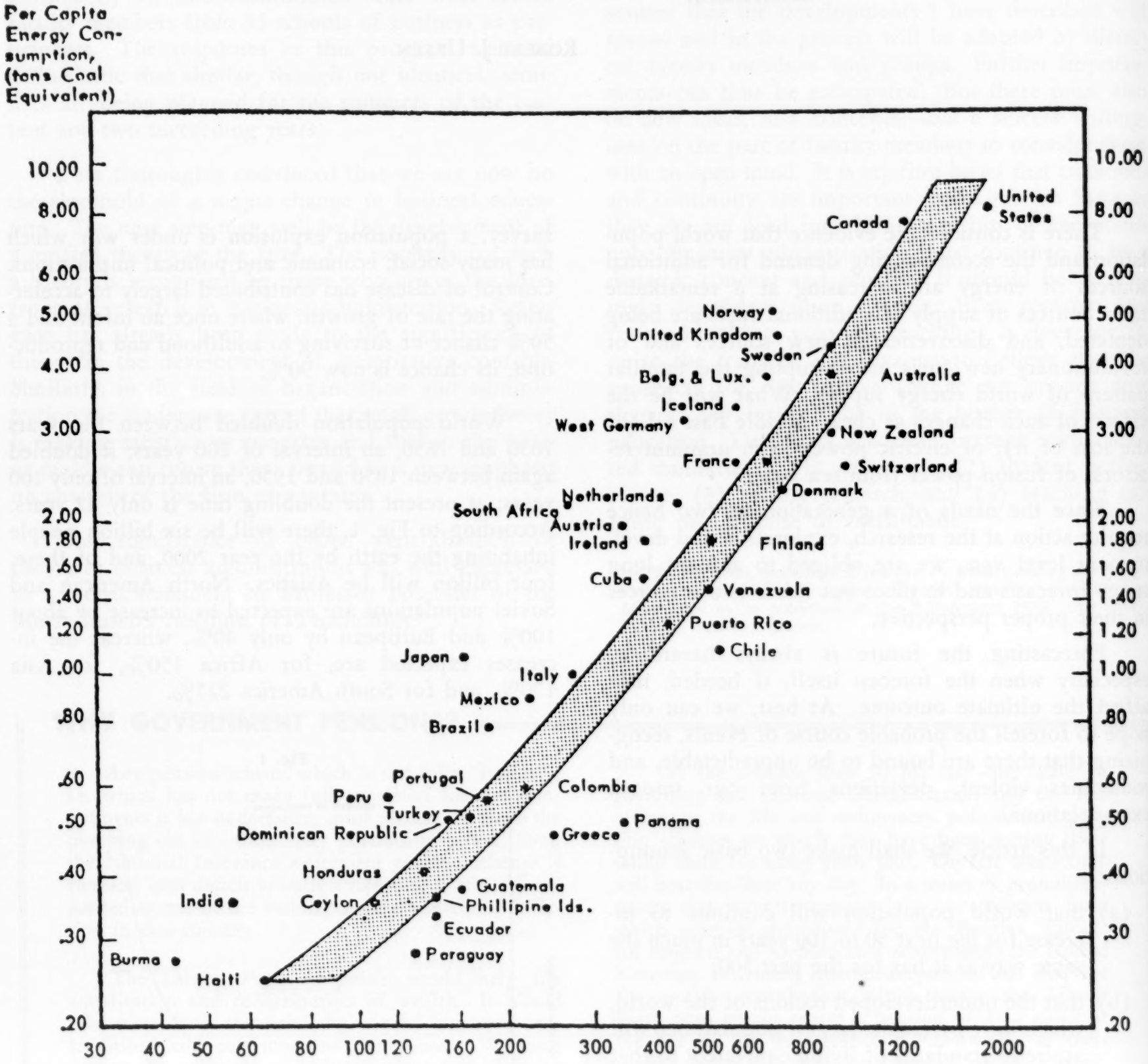


It is not the presently-industrialized regions which are going to experience the greatest explosion!

Will food shortages, wars or birth control measures curtail this growth? The United Nations Food and Agriculture Organization estimates that world food production is increasing at a sufficient rate to maintain the population, but that less than one-sixth will be adequately fed. Two-thirds of humanity now live at starvation levels! Unless the population growth rate levels off soon, it is difficult to avoid recognizing the probability of a widespread catastrophe of some sort. But an ultimate world population in excess of eight billion may reasonably be expected.

Even if the underdeveloped nations of the world do not desire industrialized civilizations, they, or someone else, will be obliged to provide the minimum industrialization which will increase their food-

ENERGY CONSUMPTION versus NATIONAL INCOME, 1952 Fig. 2



Source: Mason, *Energy Requirements and Economic Growth,* National Planning Association, Washington, 1955.

producing ability to an adequate level. In the past, the steel industry, representing a consumption of about 10% of all our fuel, has been the best indicator of the state of industrial development of any nation. Production in the U.S.A., the U.K., and the U.S.S.R. amounts to about 1,300, 800 and 400 pounds of new steel per person each year respectively, whereas in Asia the new production is only 10 pounds per person. If Asiatics were to aspire to a standard of industrialization approaching that of the U.S.S.R., their steel production and associated industry would have to increase by a factor of 40. Since world steel production has been doubling about every 10 years, it would likely take them at least 60 years to accomplish this, and in the meantime their population would have more than doubled.

TRENDS OF ENERGY CONSUMPTION

In order to compare the relative contributions of different sources of energy, it is necessary to use some common unit, whether the source is coal, oil, hydro-electric power or something else. British thermal units or kilowatt-hours are usual when heating capacity or electric power capacity are being considered, while millions of electron volts are used in nuclear reaction studies. For our purposes, however, in order to comprehend the vast amounts of fuel involved, it is more convenient to use "tons of coal equivalent".

If industrial development is to grow in a balanced way, along with steel, we will require a host of products all of which will require energy for their treatment. We have become accustomed to steadily increasing efficiency, resulting in lower energy requirements per unit of Gross National Product. This trend will likely reverse, for as the world's high-grade resources are consumed we will have to use more equipment, more technology, and more energy to treat the lower-grade supplies.

A striking illustration of the dependence of standards of living on fuel is given in Fig. 2 after Mason.[1]

There are a number of ways in which the energy consumption per person per year can be forecast. John Davis, in analyzing Canada's energy prospects for the Gordon Commission's report on Canada's Economic Prospects, has made a statistical projection of our past consumption into the future and has used the relationships between energy equivalent and gross national product, working force, major end-use, and regional demand. These lead to the conclusion that by 1980, Canadians will increase their energy consumption from about 5½ to 16 tons of "coal equivalent" per person each year. In the U.S.A. it is expected to increase from about 8 to 16 tons per person. The present world average is about 1½ tons per person per year.

Since in the U.S.A. approximately nine tons of steel are in use per person, and about eight tons of coal equivalent are consumed per person each year, a convenient rule of thumb is that:[2]

We must consume energy at a rate equivalent to about one ton of coal each year in order to keep one ton of steel in operation in our society.

Thus, if by the year 2000 A.D., there are six billion people requiring only the modest amount of two tons of steel each to maintain a minimum industrial society, we will require eighty billion tons of coal equivalent—about 20 times the present production!

WHAT IS A FUEL?

In Canada we are accustomed to relatively large sources of water power and we are prone to treat electric power and hydro power as synonyms. Hydro-electric power has risen from 3% to 8% of our total energy supply, and is expected to amount to 11% by 1980. However, when the world as a whole is considered, we find that the contribution of water power is almost negligible—only 2½% of the total.

The major sources of energy at present are the fossil fuels—coal, petroleum and natural gas. The nuclear fuels—uranium, thorium and heavy hydrogen—are the probables for the future.

A fuel is any substance which is used to produce heat or power. Ordinary burning is rapid oxidation, and we are all familiar with the simple chemical equation for the combination of carbon, C, with oxygen, O_2, to produce carbon dioxide, CO_2,

$$C + O_2 \rightarrow CO_2 + 94{,}000 \text{ calories of energy.}$$

The complete burning of 12 grams of carbon releases the heat of formation of CO_2, namely 94,000 calories. It is an exothermic reaction, and when raised to a sufficiently high temperature for ignition it can be a self-sustaining chain reaction. (We should not always think of oxygen as being necessary for burning, for hydrogen will unite with chlorine in an exothermic reaction even though there is no oxygen present. This is the basis of some rocket fuels.)

We must now also include as fuels many elements which may unite in an exothermic nuclear, rather than chemical, reaction. In some of these the energy release is enormous. For example, the fission

[1]E. S. Mason, *Energy Requirements and National Growth* (National Planning Assoc., Washington, Vol. 51, 1955).

[2]H. Brown, J. Bonner and J. Weir, *The Next Hundred Years*, p. 26 (Viking Press, New York, 1957).

of a nucleus of uranium, $_{92}U^{235}$, by collision with a neutron, $_0n^1$, to produce isotopes of barium $_{56}Ba^{144}$, and Krypton, $_{36}Kr^{89}$, is written similar to the chemical equation:

$$_{92}u^{235} + {}_0n^1 \rightarrow {}_{56}Ba^{144} + {}_{36}Kr^{89} + 3{}_0n^1 + 200$$

Mev of energy.

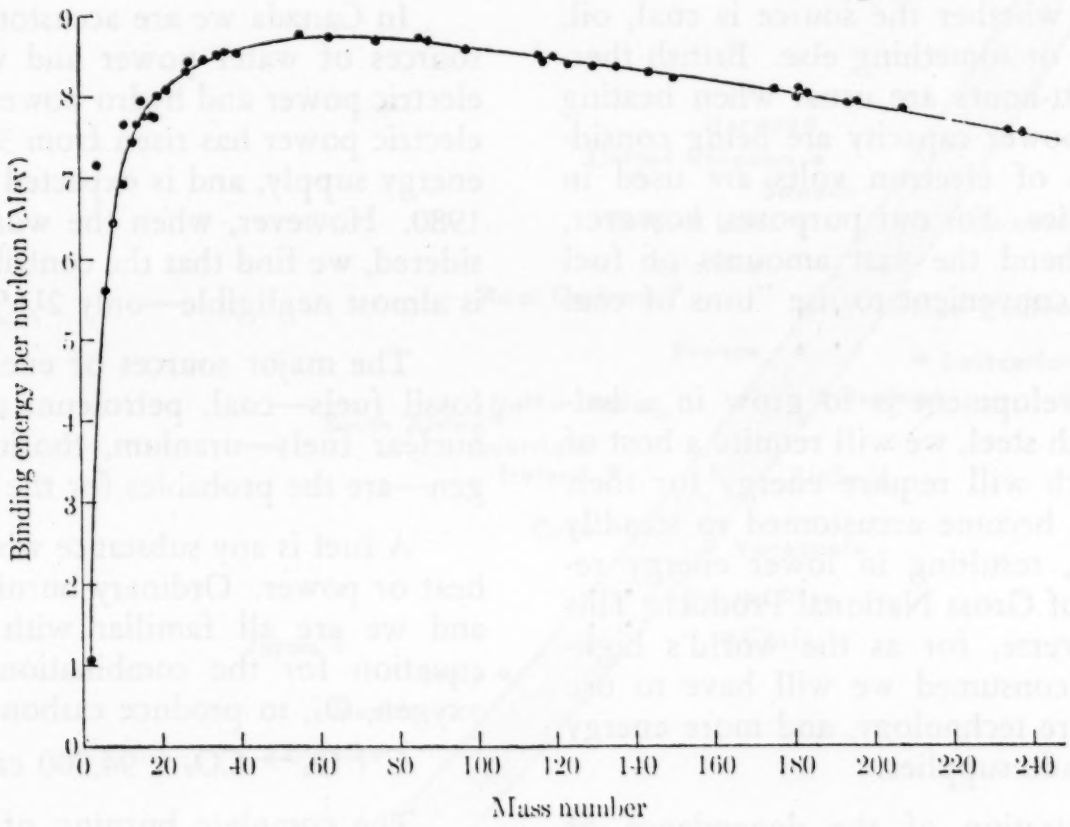
There is a release of 200 million electron volts of energy which is about equivalent to 1300 tons of coal per pound of uranium 235. There is also a net gain of neutrons in this reaction, and if these neutrons are made to collide with other uranium nuclei, then a self-sustaining chain reaction (or an explosion) can be achieved. Unfortunately, some of the fission products or "ashes", like barium and krypton, have long-lived radioactivity and will present an increasingly hazardous disposal problem.

ed for ignition. Since deuterium and tritium (heavy hydrogen) are constituents of ordinary sea water, this reaction has tremendous potential importance.

Fig. 3 is a plot of the binding energies of the nuclei of elements vs. their mass. We see that there is a maximum for the intermediate elements which are consequently the most stable ones. All that is necessary is some method of causing the nucleus of a heavy atom to split (i.e. the fission or atom bomb reaction) or for the nuclei of light elements to combine (i.e. fusion, or the hydrogen bomb reaction) to form nuclei with intermediate masses, and a great deal of energy is released. The similarity between fuels, chemical or nuclear, is even more apparent when we realize that for any electric power plant, the "furnace" constitutes only one part, be it a coal, oil, gas, uranium or heavy hydrogen "fire".

ISOTOPES

Fig. 3



Binding energy per nucleon as a function of mass number.

We may also obtain the release of energy by the fusion of light elements, as opposed to the fission of heavy ones. For example, the fusion of a deuterium nucleus, $_1H^2$, with a tritium nucleus, $_1H^3$, to form a helium nucleus, $_2He^4$, is written:

$$_1H^2 + {}_1H^3 \rightarrow {}_2He^4 + {}_0n^1 + 18 \text{ Mev of energy.}$$

There is a release of 18 million electron volts of energy which is about equivalent to 27,000 tons of coal per pound of helium produced. This, like the burning of coal, can be made a self-sustaining chain reaction if a sufficiently high temperature is provid-

FUEL RESERVES

In considering fuel reserves we must bear in mind the difference between a proven reserve and a probable reserve. Proven reserves are those whose existence has been established by actual tests of the source, and which can be developed at a profit under existing economic conditions. Probable reserves are those which, on the basis of past experience, are likely to be discovered in the future. Geological knowledge about where fossil fuels can occur and where they are unlikely is sufficient now to permit

estimates of the ultimate reserves of coal, oil, natural gas and oil shale, without regard to the economics of recovery. According to Brown, Bonner and Weir, the total is equivalent to about 3,700 billion tons of coal. About 73% of this is recoverable coal, 21% is oil shale and 6% is petroleum and natural gas.

As we use up the readily available supplies of petroleum and costs rise, the extraction of hydrocarbons from coal and tar sands will become feasible. If we were prepared to pay double the price for fuel, our proven reserves would increase by a factor of eight. However, if we were prepared to pay four times the present price, our proven reserves would increase by only a factor of 10, not 16.

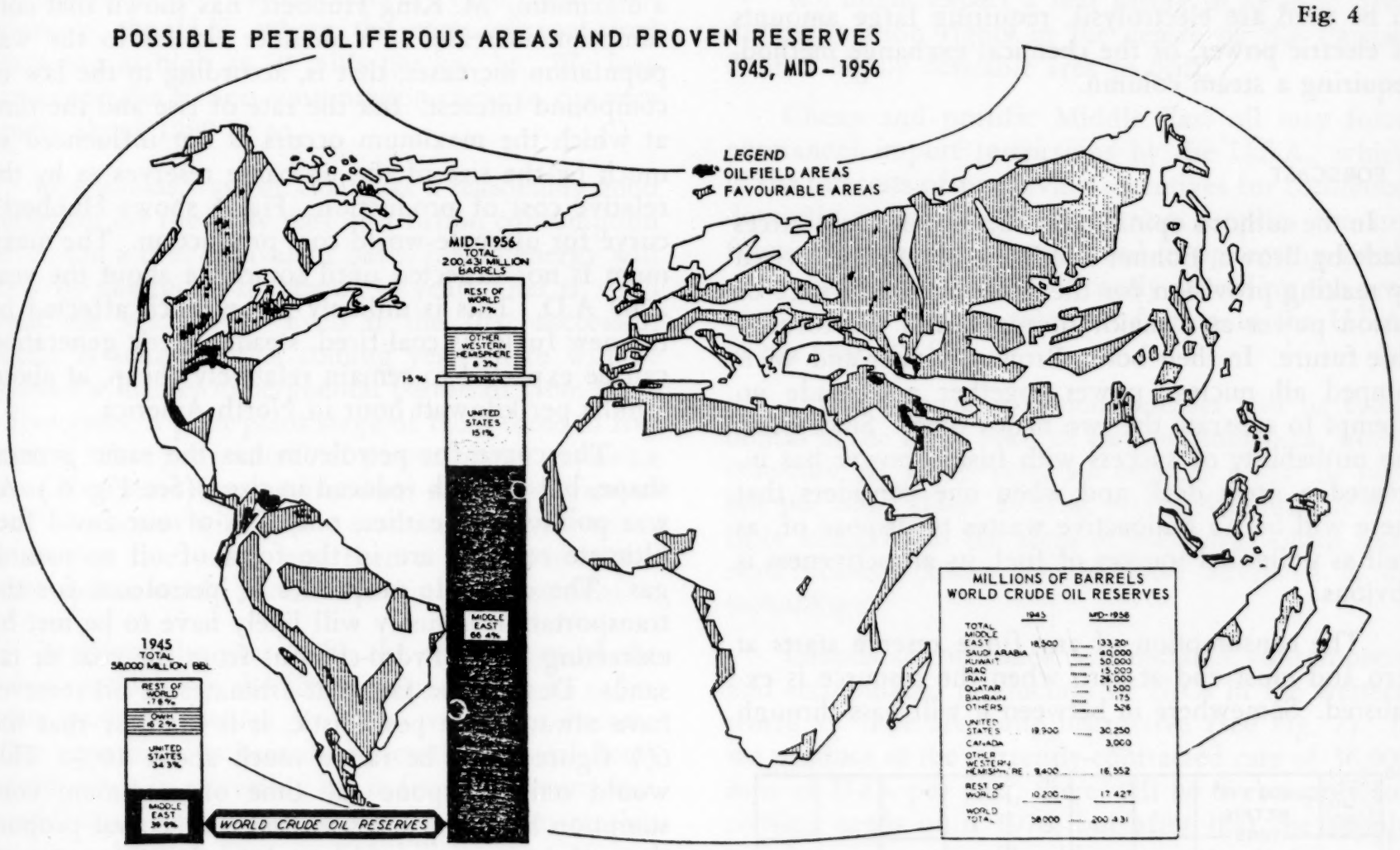
North America, the U.S.S.R., and the U.K. have been blessed with huge supplies of recoverable coal totaling about 2,500 billion tons. Canada, with 2% of the total, is overshadowed by the U.S.A. with 36%, the U.S.S.R. with 24%, and China with 20%.

Persian Gulf. The oil-bearing rocks are thick, highly porous, and permeable, so that the wells can be spaced far apart; there are less than 1,000 wells in the Middle East compared to 550,000 in the U.S.A. The average well in the Middle East produces 5,000 barrels of oil per day at a cost of 30c per barrel compared with 12 barrels per day in the U.S.A. at $1.50 per barrel and 22 barrels per day at $1.00 per barrel in Canada.

According to the Arabian American Oil Co., between 1949 and 1955 the reserves had changed in the following manner: Kuwait up 1,000%; Saudi Arabia up 1,200%; Iran up 450%; Iraq up 400%. In the same period, the financial control changed from one-half British and one-third American to less than one-third British and nearly two-thirds American.

For the purpose of this article, we will include natural gas with petroleum even though in Canada

Fig. 4



Over half the known bituminous coal is in North America, whereas the communist countries have two-thirds of the anthracite.

North America, South America, Europe and the U.S.S.R. have extensive reserves of petroleum, but these pale in comparison with the reserves of the Middle East (see Fig. 4). Over two-thirds of the known proved reserves of oil are located in a basin of sedimentary rocks surrounding and underlying the

natural gas is expected to increase from 4% to 25% of our total energy supply, largely at the expense of coal production.

The most recent figures on world uranium reserves indicate that there is no shortage of ore at present. South Africa with 1,000 million tons of low grade,, 0.03% U_3O_8 ore, has the largest proven reserves of the western world. The U.S.A. has the richest reserves, with 60 million tons of 0.25% ore.

Canada has 225 million tons of ore averaging 0.10%. If we credit the U.S.S.R. with similar reserves, we see that there are probably at present over one million tons of U_3O_8 proven, which amounts to a coal equivalent of 15 billion tons. On the basis of present geological knowledge, there isn't much doubt that the actual reserves will be many times these.

Heavy hydrogen, or deuterium, is found in the atmosphere and in lake and sea water. There is 6,400 times as much hydrogen in sea water as there is deuterium. Nevertheless, since two-thirds of the earth's surface is covered by seas, the supply of deuterium is inexhaustible. Super-heavy hydrogen, or tritium, is the rarest known naturally-occurring isotope. When large quantities of tritium are desired they are produced from nuclear reactions between deuterium nuclei or nuclear reactions between neutrons and lithium. Thus reserves of fuel for fusion reactors are unlimited except by the economics of recovery. The two methods of separation most likely to be used are electrolysis, requiring large amounts of electric power, or the chemical exchange method, requiring a steam column.

A FORECAST

In the author's opinion, the forecast of fuel sources made by Brown, Bonner and Weir, should be revised by making provision for the probable appearance of fusion power as a major source within the foreseeable future. In their book, Brown, Bonner and Weir lumped all nuclear power together and made no attempt to separate the two major types. Since then, the probability of success with fusion power has increased a great deal, and when one considers that there will be no radioactive wastes to dispose of, as well as unlimited sources of fuel, its attractiveness is obvious.

The consumption of any finite reserve starts at zero and must end at zero when the resource is exhausted. Somewhere in between it will pass through

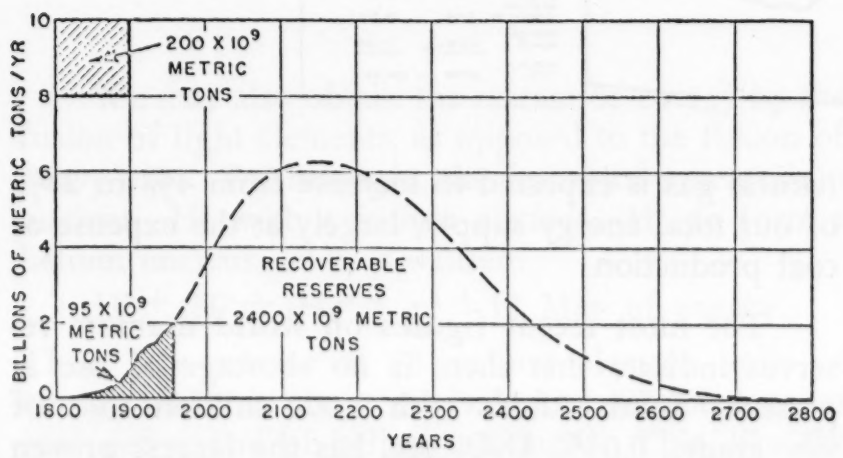


FIGURE 5

Ultimate World Coal Production

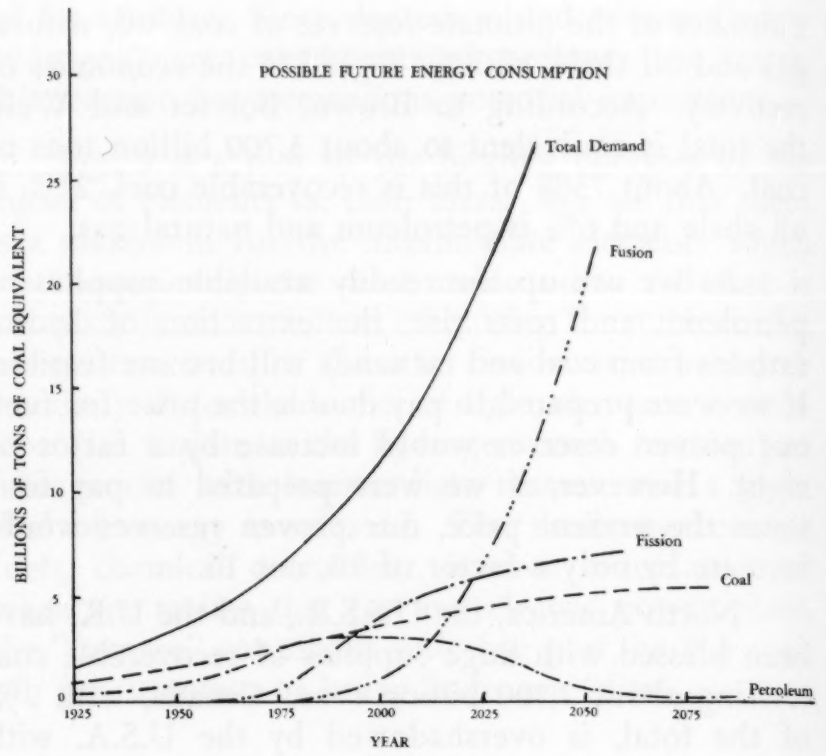


Fig. 6

a maximum. M. King Hubbert[3] has shown that consumption increases in a manner similar to the way population increases, that is, according to the law of compound interest. But the rate of rise and the time at which the maximum occurs is not influenced so much by the size of the probable reserves as by the relative cost of production. Fig. 5 shows Hubbert's curve for ultimate world coal production. The maximum is not expected until sometime about the year 2200 A.D. This is unlikely to be much affected by the new fuels, as coal-fired, steam-electric generation can be expected to remain relatively cheap, at about 5 mills per kilowatt hour in North America.

The curve for petroleum has the same general shape, but is much reduced in size. (See Fig. 6.) As was pointed out earlier, only 6% of our fossil fuel ultimate reserves are in the form of oil or natural gas. The desirable properties of petroleum for the transportation industry will likely have to be met by extracting liquid hydro-carbons from the coal or tar sands. Despite the fact that estimates of oil reserves have always been pessimistic, it is unlikely that the 6% figure could be raised much above 10%. This would only postpone the time of maximum consumption by a few years so that the general proportions of the curve would be substantially the same.

To obtain the possible consumption curves for fission and fusion power, we proceed as follows: first estimate the probable total world demand for energy in any form; next subtract Hubbert's estimate of the probable contribution of coal and petroleum; then assume that the residual would have to be supplied by nuclear fuels, either fission or fusion.

[3]M. King Hubbert, "Nuclear Energy and the Fossil Fuels", Shell Development Co., Exploration and Research Division Publication No. 95, 1956.

In Fig. 6, the total energy curve has been drawn on the basis of two billion persons in 1925 consuming one ton of coal equivalent per year, three billion in 1960 consuming one and one half tons per year, and six billion in 2000 consuming the modest increase of two tons coal equivalent per person per year.

Even though the first nuclear reactor was operated successfully at the University of Chicago in 1942, the amount of fission fuel consumed today is negligible and on the basis of the reactors now in existence or under construction, by 1970 the consumption will still be less than one billion tons of coal equivalent per year. Thus we know how to plot the first 30 years of the fission consumption curve.

According to reports from the 1958 Geneva Conference on the Peaceful Uses of Nuclear Energy, present experience is that fission reactors will be operating at near 6 mills per kilowatt hour and therefore will be competitive with steam-generating electric plants in North America by 1970, and even sooner in the U.K. where the costs of coal-fired plants run as high as 10 mills per kw. hr. We may thus expect the fission consumption curve to rise very rapidly about 1980 or so.

In a similar way, we can make a reasonably good prediction for the early part of a fusion consumption curve. On a coal equivalent basis, fusion energy will likely be negligible for about 30 years, that is, until about the year 1990. Even if the first successful reactor is achieved this coming year, there will be required a further experimental period of from three to five years; a pilot plant stage of from three to five years; a "first generation" of power plants requiring about five years for construction; a "second generation" of reactors with nearly economical performance of another five years; and then a period in which consumption would climb to a significant amount.

By about the year 2000, the advantages of the fusion reactor over the fission reactor with its radioactive garbage (which by then will have become either an enormous hazard or a costly disposal item) should result in a leveling off in fission consumption. In addition, if the consumption of uranium reaches the equivalent of four or five billion tons of coal each year, we will require recoverable reserves 100 times the presently-proved reserves to serve the needs of a period of only 20 years. Unless we can operate with very low-grade ores indeed, like ordinary granite, the fission consumption curve may even start to decline.

Unless some entirely new source of energy, such as direct solar power, becomes available, the remaining demand can be allocated to fusion consumption.

SOME CONSEQUENCES

With due regard to the assumptions on which the forecast of Fig. 6 was based, there are a number of general inferences which can be drawn.

First, it is almost a certainty that petroleum and natural gas will be the star performers until about 1975. True, coal consumption will be just as great, but the dependence of the transportation industry on petroleum products will assure the oil industry its primacy. It was shown during the Suez crisis that if a shortage were to exceed 20% in Europe even temporarily, then hunger and unemployment would result. In view of the dominant position of the Middle East oil reserves, we should expect more trouble yet over the ownership of oil, particularly in Saudi Arabia and Kuwait. Even if considerations of national security are omitted, the potential revenues can hardly be ignored and must be coveted by the Arabs, Israelis, Russians, British and Americans alike.

We might expect a real furore to develop over the exploration rights in the centre of the Persian Gulf, a highly desirable area to drill.

Cheap and prolific Middle East oil may force permanent import restrictions by the U.S.A., which in the interests of preserving incentives for continued domestic exploration and assuring supplies for any future emergency, is committeed to preserving a volume of imports "not significantly exceeding the proportion they bore to total production in the U.S.A. in the year 1954".[4]

Uranium-burning fission reactors will be economical in the U.K., parts of Europe, and India, where conventional power costs are high, in a year or two, but not until about 1970 in North America. It is a little ironical that the areas of the world which least need nuclear power are the most advanced in its technology!

Graphs of projected accumulated consumption and accumulated production of U_3O_8 in the western world vs. time are quite instructive (see Fig. 7). If we produce at the currently-contracted rate of 36,000 tons of U_3O_8 per year, there will be over-supply for civilian needs until 1976, but after that the supply will be inadequate. Should new contracts (for military purposes) fail to appear in 1962 when the present contracts expire, the mines will either have to close down or stockpile for a period of about ten years. Then suddenly the capacity would have to be expanded. Rather than lose the ultimate markets in Europe and Asia to competitors in the Sterling area for our uranium ore, it would be in our national in-

[4]Herbert Hoover, Jr., "Petroleum and our National Security", Bull. Amer. Assoc. Petroleum Geologists, Vol. 41 No. 7, pp. 1416-1421. 1957.

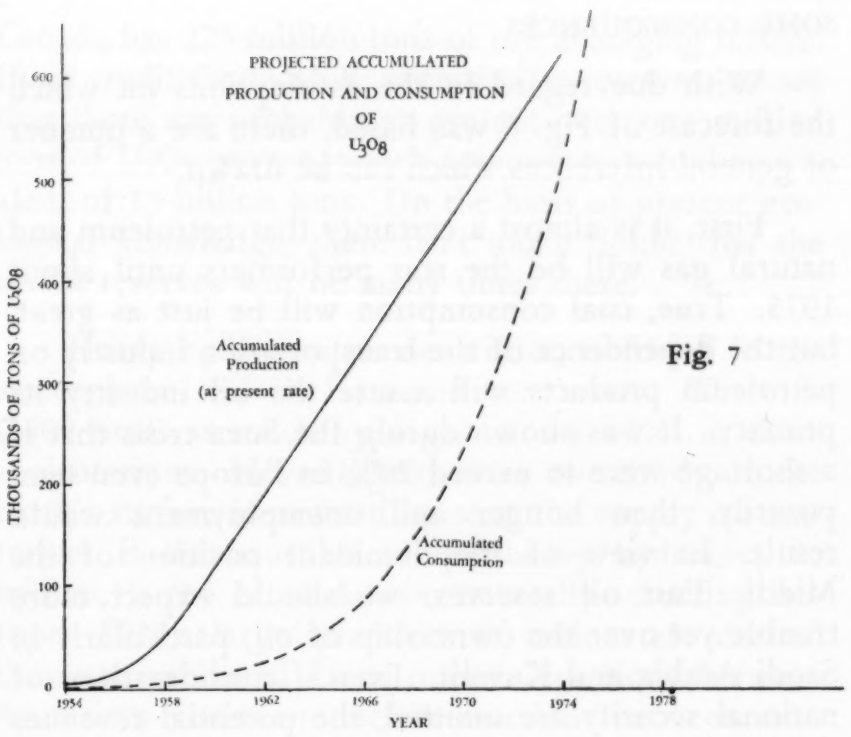


Fig. 7

terest for an association of uranium producers, or the government, to stockpile over the bleak years. A price of not more than $6.00 per pound would be realistic, with recovery of the investment not likely until about 1980.

By about the period 2000 to 2025 A.D. there should be at least four major sources of fuel: coal, petroleum, uranium and heavy hydrogen. Since these resources are widely distributed over the earth, the availability of one or the other could remove the ownership of fuel from its prominent position as a cause of international conflict. One can visualize the day when deuterium will be extracted from ordinary sea-water; the power for the pumps and treatment plants will be obtained from the main electric power plant, for which the fusion reactor is the furnace; and the de-salted sewage will be piped to desert areas to produce new food.

WHAT WOULD A NATIONAL ENERGY AUTHORITY MEAN TO CANADIANS?

Because Canada, more than most countries, depends for its well-being on abundant, economic supplies of energy, the proposal for a national authority deserves close study and the most thoughtful consideration. The actions of such a board will affect the lives of every citizen.

In determining the scope and powers of such an authority, certain considerations should be kept in mind:

(1) Canada's energy consumption has grown at a record rate by 43 percent between 1947 and 1957. Would it have grown any faster under an authority?

(2) Our energy production has grown even faster. In petroleum alone it has increased 26 times in 11 years, with enough reserves discovered in that time to last Canada 260 years at present rates of consumption. With an authority could this growth have been any greater?

(3) Total investment in energy industries has grown rapidly. In the oil industry, for instance, exploration and development expenditures rose 28 times between 1946 and 1957. Would greater regulation stimulate or discourage investment?

(4) There already exist in the hands of the appropriate municipal, provincial and federal governments, powers to regulate energy production, transmission and sale. Are these powers now improperly used? Can it be assumed that they would be wielded more effectively by a centralized body? Is it necessary to duplicate these powers?

(5) Canadian consumers, exercising the free choice of the market place, can now decide among the various forms of energy the ones which suit their own needs best. Would an authority add anything to this freedom of choice?

(6) Would there be any danger of such an authority, invested with wide powers, penalizing producers or consumers of any region for the supposed benefit of other regions?

No one can argue that Canada should not have a national energy policy for the best use of its energy resources for the benefit of all its people, now and in the future. It is evident, too, that collection and assessment of all the needed information about our resources would help to arrive at the best energy policy. The question which must concern every Canadian is whether this desirable goal carries with it the threat of unwise controls over a growing, dynamic industry.

—Imperial Oil Review

Lake Erie's Offshore Petroleum Boom

Southern Ontario was the locale of one of Canada's first oil and gas producing fields. Today, it is enjoying a new boom, based largely on offshore drilling for oil and gas in Lake Erie. The author traces the extent of the development, and some of the economic factors that have led to this boom.

FRANK L. FOURNIER

THIS year, some 50 wells will be drilled into the bed of Lake Erie in search of new oil or gas fields or extensions to existing fields. One might reasonably ask why operators are drilling in 30 to 80 feet of water when there are extensive land areas upon which to drill. The purpose of this paper is to explain those reasons and give a brief review of the economics of lake drilling.

Wells have been drilled in Southwestern Ontario since 1858. Thousands of wells have been drilled from the Niagara Peninsula, westward to Windsor and north to Manitoulin Island. The greatest concentration of drilling is in the southern portion of this area and along Lake Erie. In recent years many new fields have been found in Lambton, Kent and Elgin Counties. All of the land is owned individually, so that oil and gas leases must be obtained from the owners before drilling is undertaken. This is time-consuming and expensive. It might take upwards of a month to lease an area of 3,000 acres, and even then this area would not be a solid block, for it would likely contain within its limits a number of lots either leased to other operators, or which cannot be leased. The cost of acquisition, including title searches, registration, bonus payments and wages would run from a minimum of 50 cents per acre to as much as $3.00 per acre. Rental payments may be 25 cents annually in Huron and Middlesex Counties, and $1.00 per acre annually in parts of Kent and Lambton Counties. The cost of acquisition and rentals is not necessarily commensurate with the prospects of the land for oil or gas exploration. In most instances, it is not.

The lake areas are controlled by the Ontario Department of Mines, which grants exploration rights upon application to Licenses of Occupation. The licences cover most often two miles by four miles, or 5,120 acres, and three applications are accepted each year by the Department from each company or individual. The regulations are reasonable, allowing grouping of credits, carry-over credits for overexpenditures, and provisions for cash deposits on underexpenditures. Rentals are 15 cents per acre per year and work obligations are such that the drilling of one well per year, for each three to four licences, will carry the acreage without cash deposits.

GEOLOGICAL FACTORS

The realistic terms of the regulations are probably an important reason for the much-expanded exploration activity on Lake Erie. However, attractive regulations in themselves obviously will not create great interest. The area must have favourable geological conditions to be attractive, and this area is richly endowed in that respect. Along Lake Erie are located Kingsville, Leamington, Wheatley, Tilbury, DeClute and Morpeth—all important oil or gas fields in their day; from Port Burwell to Fort Erie there are a number of Silurian fields which collectively have produced a noteworthy quantity of gas. Drilling operations offshore from these gas fields have already proved new reserves of gas. Of major importance is the Tilbury extension at Port Alma, where successful gas wells are producing up to four miles from shore. Gas has been discovered off DeClute, Morpeth, Wheatley, Kingsville and Port

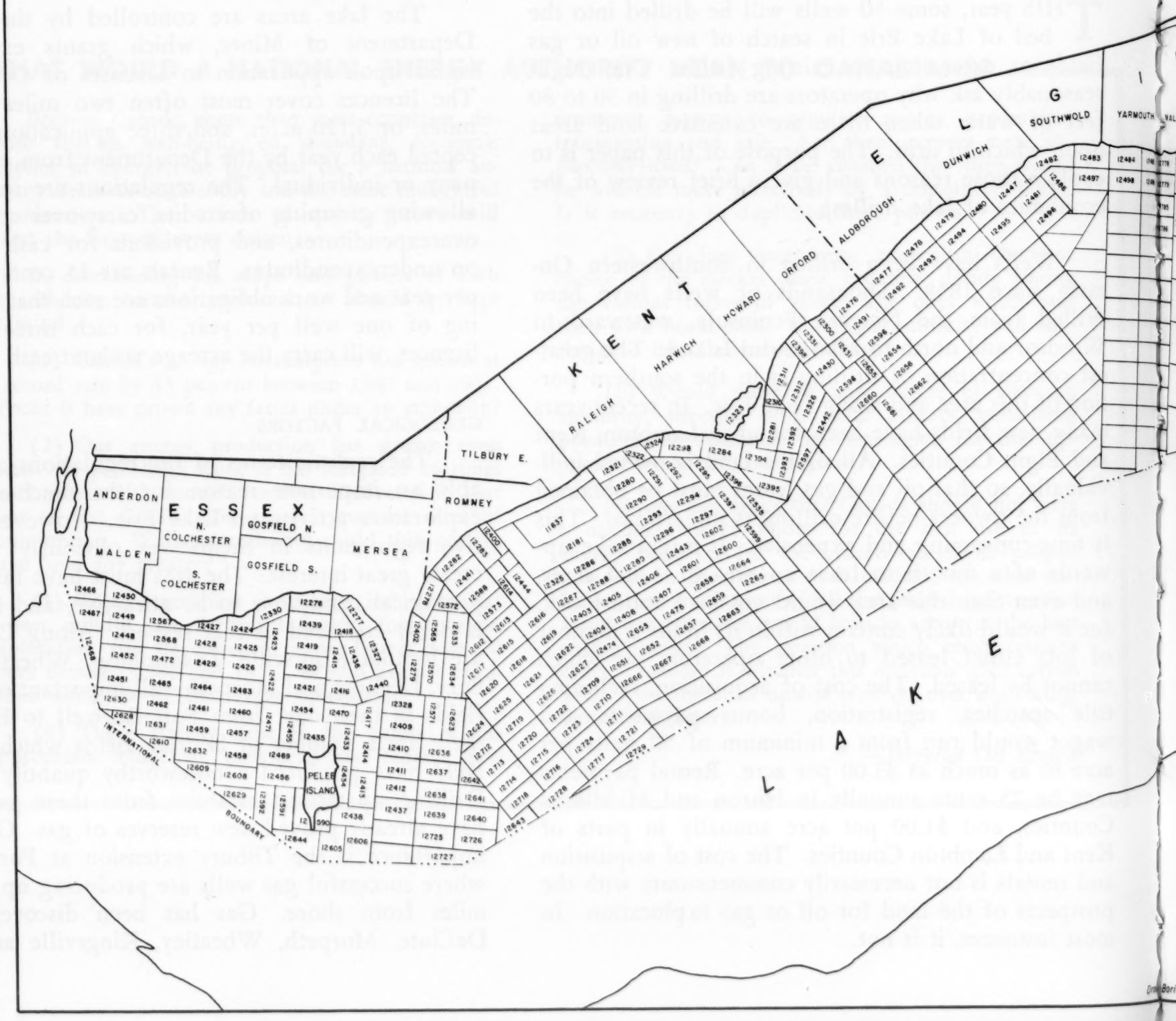
ACREAGE UNDER LICENCE

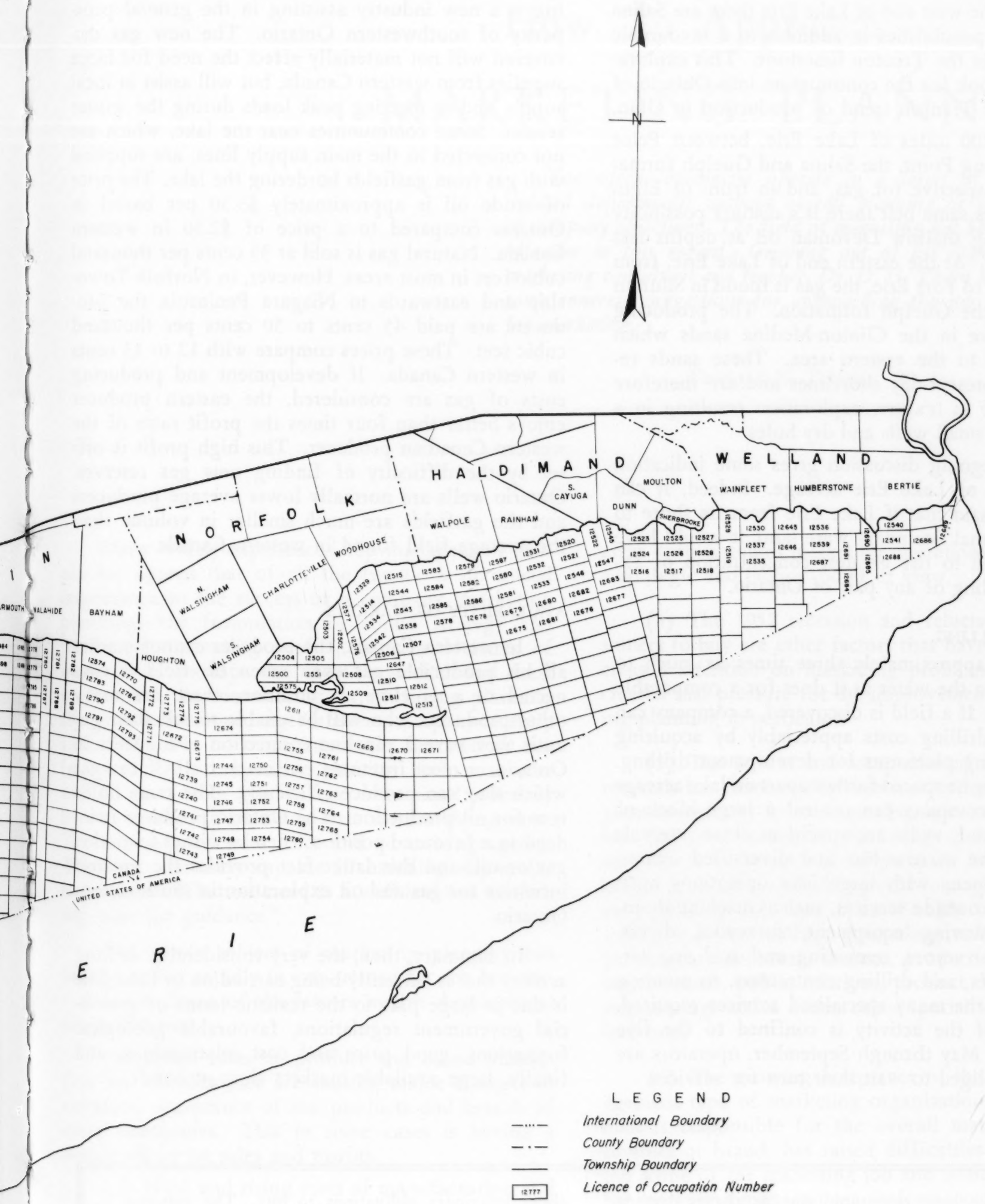
IN

LAKE ERIE

Scale 8 Miles 1 inch

ONTARIO FUEL BOARD





Drawn Boris Dimitroff Nov. 1957

Dover. Most important, however, is the possibility of discovering new fields in this favourable geological setting. At the west end of Lake Erie there are Salina and Guelph possibilities in addition to a favourable deeper play in the Trenton limestone. This exploration would look for the continuation into Ontario of an important Trenton trend of production in Ohio.

In the 100 miles of Lake Erie, between Pelee Point and Long Point, the Salina and Guelph formations are prospective for gas, and in front of Elgin County in this same belt there is a distinct possibility of discovering shallow Devonian oil at depths less than 500 feet. At the eastern end of Lake Erie, from Port Burwell to Fort Erie, the gas is found in Silurian beds below the Guelph formation. The producing formations are in the Clinton-Medina sands which are confined to the eastern area. These sands resemble our present-day shorelines and are therefore most variable in texture, exploration resulting in a high ratio of small wells and dry holes.

The foregoing discussion gives some indication of the value of Lake Erie acreage. Indeed, it can probably be said that if Lake Erie from its shore to the International Boundary were land, it would have been subjected to the greatest concentration of exploratory drilling of any part of Ontario.

COSTS OF DRILLING

It costs approximately three times as much to drill a well on the water as it does for a comparable well on land. If a field is discovered, a company can lower these drilling costs appreciably by acquiring its own drilling platforms for development drilling. Gas wells may be spaced farther apart on lake acreage because one company can control a large block of leases. On land, wells are spaced at close intervals because of the narrow lots and diversified ownership. A company with large lake operations must employ many outside services, such as machine shops, barges for moving equipment, surveyors, divers, geophysical surveyors, cementing and acidizing service companies, and drilling contractors, to mention just some of the many specialized services required. Since most of the activity is confined to the five months from May through September, operators are sometimes obliged to wait their turn for services.

It is estimated that at least $1,000,000 will be spent on the drilling in Lake Erie this season. Drilling is a new industry assisting in the general prosperity of southwestern Ontario. The new gas discovered will not materially affect the need for large supplies from western Canada, but will assist in local supply and in meeting peak loads during the winter season. Some communities near the lake, which are not connected to the main supply lines, are supplied with gas from gasfields bordering the lake. The price of crude oil is approximately $3.50 per barrel in Ontario compared to a price of $2.50 in western Canada. Natural gas is sold at 35 cents per thousand cubic feet in most areas. However, in Norfolk Township and eastwards to Niagara Peninsula the producers are paid 45 cents to 50 cents per thousand cubic feet. These prices compare with 12 to 13 cents in western Canada. If development and producing costs of gas are considered, the eastern producer enjoys better than four times the profit ratio of the western Canadian producer. This high profit is offset by the difficulty of finding new gas reserves. Ontario wells are normally lower average producers and the gasfields are much smaller in volume than the average field found in western Canada.

AVAILABILITY OF MARKETS

In western Canada, the producer cannot market all his producible gas even when his field is connected to a pipeline; in addition, there are many other producers who will be unable to sell their gas until they have a pipeline connection. Producers in Ontario in most instances can market all of the gas which they can produce efficiently. The same holds true for oil production. The Ontario producer is indeed in a favoured position when he wishes to market gas or oil, and this latter fact provides the greatest incentive for gas and oil exploration in southwestern Ontario.

In summary, then, the very considerable drilling activity that is currently being carried on in Lake Erie is due in large part to the realistic terms of provincial government regulations, favourable geological formations, good price and cost relationships, and finally, large available markets close at hand.

In the long run stupid slogans always damage confidence between seller and buyer. The only satisfactory way to build business is to offer the customer a product he wants at a price he is willing to pay—and sell it on its merits, with no nonsense about imaginary obligations to buy. The customer who buys because he "auto" is more likely to be sore than contented the next day.

—*The Financial Post*

How To Approach
MARKETING PLANNING

Too often, businesses operate in a series of specialized, isolated departments without overall planning or consideration of company objectives. The field of marketing has been a leading offender in this regard. Growing out of his experience as a marketing consultant and teacher, Dr. D. H. Thain here presents some concrete suggestions for approaching the job of planning for marketing.

DONALD H. THAIN

Many widely-experienced top management people are agreed that of all the functions of crucial importance to the success of a company, marketing planning—the formulation of sound strategy and tactics for increasing profits, sales, and shares of markets—is perhaps the most neglected and least understood. In commenting on marketing planning the president of one large Canadian company recently said, "There is no more important function in our business. Our competitive position both next year and 20 years from now will be determined primarily by the marketing planning that we are doing now. We have a good sales force and advertising agency. They are extremely capable in handling day-to-day operations. What we need is a well-laid-out marketing plan for guidance."

The whole subject of marketing planning has been growing rapidly in importance for the last several years. Some of the factors in this development are as follows:

(1) Rapid rates of product and brand innovation and obsolescence are causing major changes in consumer acceptance of the products and brands of many companies. This in some cases is having a drastic effect on sales and profits.

(2) High and rising costs of manufacturing and marketing are greatly increasing the risk involved in new marketing ventures. Planning is generally the only hedge against this risk.

(3) Competition has become so sharp in many fields of business that it is no longer possible to get away with unsound marketing operations, both from a strategic and tactical point of view.

(4) The 1957 recession and reluctance of consumers to buy are other factors that have focused increased attention on marketing problems, and have created real pressure for the improvement of marketing planning in particular.

(5) The advent and acceptance of motivational research has dramatically drawn attention to (a) the great complexity of consumer behaviour and (b) the fact that in a successful marketing operation, many specialized skills and functions must be drawn together in an effectively-integrated total plan. Whereas marketing once was often thought of as simply *selling*, it is now selling, psychology, administration, personnel, accounting, finance, production, advertising, research, public relations, product development, engineering, and a dozen other specialties all rolled into one.

(6) The growing acceptance of the brand management type of marketing organization, where one man is responsible for the overall marketing of a product or brand, has raised difficulties in defining the scope of the marketing job and setting standards for marketing management performance.

(7) Changing markets and distribution patterns have forced careful reappraisal of many previously-accepted assumptions and ways of operating in regard to all aspects of marketing.

(8) The improvement of skills, knowledge, and operating ability in marketing has, in many companies, not kept pace with improvements in other fields of management.

The increasing importance of marketing planning and the apparent lack of useful concepts or accepted principles in this area has caused many thoughtful top administrators to grapple with certain basic questions about marketing planning and management. What is marketing? What is management? What is planning? What are the responsibilities of marketing managers, and/or brand managers? What would an acceptable marketing plan comprise? How should a company go about formulating effective marketing plans?

Obviously there are no precise, all-inclusive answers to these questions. However, in the following paragraphs the writer will attempt to describe and draw together a few fundamental concepts concerning marketing planning and its place in the overall job of marketing management, and to suggest ways of thinking about some of the problems raised above.

The plan of the article is first to define the terms marketing, management, and planning; then to comment on the responsibilities of marketing managers and the place in this picture of marketing planning; to outline an approach the writer has found useful in marketing planning; and finally, to offer suggestions regarding the mechanics of making marketing plans.

WHAT IS MARKETING?

Prior to the mid-1940's, the term marketing was generally regarded as meaning selling (getting orders and dealing with customers), or distribution (moving goods from producers to consumers). Today, however, as practised in the most progressive companies, the marketing concept includes a far wider scope of operation than simply selling and distribution.

Economist and consultant Peter F. Drucker[1] has defined marketing as follows:

"Marketing is not only much broader than selling, it is not a specialized activity at all. It encompasses the whole business. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise."

[1]Peter F. Drucker, *The Practice of Management*, (New York, Harper & Brothers), 1954, p. 39.

This is a stimulating and useful concept of marketing. However, since it is quite general, let us offer a more specific refinement:

> Defined broadly, marketing includes all forms of business operations that are concerned primarily with the flow of goods and services from producers to consumers. Stated another way, marketing is the performance of business activities designed to create customers; it concentrates on the recognition, stimulation and satisfaction of demand.

As such, the marketing concept provides for the detailed and carefully-coordinated consideration of related problems covering different functional areas, ranging from new product development to the handling of problem salesmen. In addition to including a wide spectrum of functional problems, application of the marketing concept forces the consideration of the complete range of problems from extremely important complex policy problems that must be settled at the highest level of management, to relatively simple situations that could be handled satisfactorily by the newest sales recruit. Marketing considerations therefore begin with the setting of company-wide objectives, top-management policy formulation, and long-range planning. From this starting-point they embrace a multitude of problems of decreasing complexity and importance until comparatively simple and unimportant grass-roots advertising and selling problems have been covered.

To apply the marketing concept to a specific problem in marketing planning requires that the overall concept be broken down into component parts. Although each of the pieces is, of course, closely related to all the others, dividing them helps in analysis. These component parts, each of which must be considered both separately and as part of the whole, are as follows:

1. *The Consumer*

The primary objective of all marketing operations is to bring about buying action by consumers. Consideration of the consumer is, therefore, the only logical beginning point in the analysis of any marketing problem. As one writer has put it: "The consumers' needs, wants, desires, preferences, beliefs, habits, foibles, and eccentricities constitute an important determinant of the products which you offer, the channels through which you will sell them, the promotional efforts which you will employ, and the prices you will be able to obtain." Recognition of this fact has resulted in one of the most significant trends in current marketing thinking, namely, the placing of greater importance on qualitative and quantitative analysis of the consumer. Years ago most companies

sold what they could make. Today the successful companies make what they can sell.

2. *Product Policy*

The product is a means whereby consumer needs or wants are satisfied. Marketing success is therefore governed to a large extent by the degree to which product characteristics—i.e. type, quality, taste, size, usefulness, handiness, etc.—fill consumer desires.

In addition to considering each product separately it is important to examine the company's product line as a whole. Sound product line strategy takes into account problems regarding fixed costs, contribution to overhead and profit, breakeven points, and other problems such as branding, labelling, and packaging.

3. *Distribution Channels*

Distribution channels provide the means whereby the product is moved from producer to consumer. The organizations involved in a company's distribution channels may vary in function from simply taking orders to carrying on warehouse, credit, promotion, and other services.

4. *Personal Selling*

Personal selling, advertising, and sales promotion are the three methods whereby marketing pressure can be applied to distribution channels and ultimate consumers in order to increase the quantity and yield of product purchase and/or use. Personal selling encompasses the field of sales management and includes all types of face-to-face efforts, on the part of both company salesmen and the salesmen of its distributors or agents, to influence the actions of potential buyers. The importance placed on personal selling in the total mix of promotional elements varies widely among companies and industries.

5. *Advertising*

Advertising is the communication of sales messages through mass media. The effectiveness of advertising depends on (1) the opportunity to increase total (primary) demand and/or brand (selective) demand, and (2) sound and specific answers to the basic questions: to whom, what, and how are we to communicate? The answers to these questions lie in an analysis of the consumer and product.

A chief reason for tremendous waste in advertising spending is that campaigns are neither based on a realistic analysis of the total marketing situation, nor effectively integrated with other elements in the marketing program or "mix" of the company. There are two vital requirements in the successful execution of outstanding advertising: (1) the advertiser must be communicating the right message to the right audience or market, and (2) the message must be communicated effectively. The first is largely a matter of reasoning logically from correct facts supplied by good marketing research; the second is a matter of creative ability.

6. *Sales Promotion*

Personal selling and advertising are but two of the selling tools available to marketing executives; the third is usually termed sales promotion and includes many trade and consumer persuaders such as display allowances, store promotion plans, contests, exhibition couponing, sampling and a host of different consumer promotions and deals. The main objectives in using these sales promotion techniques are usually as follows: (1) to force trade to stock heavily, (2) to encourage trade promotion, (3) to get consumers to sample a new product, (4) to encourage consumers to switch brands, and (5) to fight competitive deals.

Analysis of whether or not the use of special sales promotion methods would be profitable hinges largely on the nature of the product, price, brand loyalty, frequency of purchase, and trade practice.

7. *Pricing*

Pricing policies should be based on consideration of competitive prices, fixed and variable product costs, contribution to overhead and profits, necessary margins, elasticity of demand, and the needs for promotion spending. Pricing is simply one of several means to the ultimate end of maximizing sales and profits. As such, pricing policy must be skillfully combined with other factors in the company's total marketing situation.

8. *Marketing Research*

The function of marketing research is to provide information that will enable the marketing administrator to rely less on judgments and guesses; experience has clearly shown that the more facts one has at his disposal, the less likely he is to make wrong decisions. Marketing research includes a wide variety of different types of research ranging from the simple, commonsense analysis of readily-available statistics to complex and expensive motivational studies. Marketing research may be brought to bear on problems in many different areas of a company's marketing operations. Getting the answer to such widely varying problems as how many salesmen we need to what advertising appeals we should use often depends primarily on the sound use of marketing research.

9. *Promotional Programs*

Ultimately the success of a businessman in his marketing operations depends on his skill in combining all these elements in an effective marketing "mix" (see Exhibit 1). Professor Neil H. Borden has stated that an administrator's success as a marketer "depends pretty much on his understanding of the forces of the market that bear on any product or product line and his skill in devising a "mix" of marketing methods that conform and adjust to these forces in ways to produce a satisfactory net profit figure.

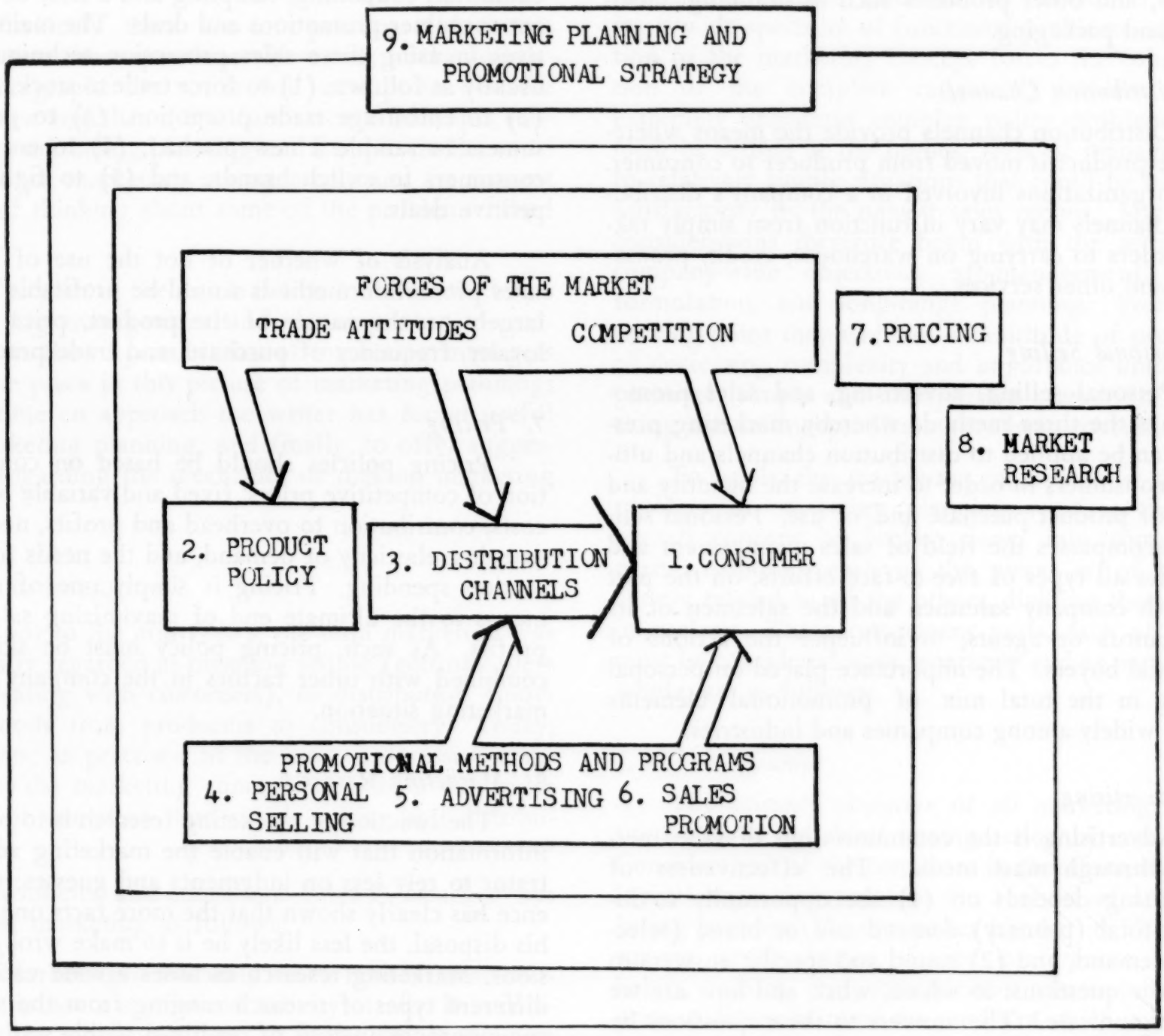
WHAT IS MANAGEMENT?

Management may be defined as the effective use of means to accomplish an end result. In marketing management the means are the *resources* of the company—men, ability, experience, productive capacity, funds, and goodwill that is of value in the market place; to any responsible administrator the end must be a contribution to society, which for companies in our free enterprise society is measured in profits, sales, shares of markets, and other measures that reflect consumer acceptance.

EXHIBIT 1

THE MARKETING CONCEPT

PURPOSE OF THE FIRM: TO CREATE AND KEEP CUSTOMERS AT A PROFIT



If we accept the foregoing statements, we can agree that marketing management is the effective use of the company's resources to increase profits as a result of operations over the entire sphere of marketing as described above.

Effective management, in marketing as in any other area of business, can be described as a continuous three-phase cycle consisting of

(1) *Planning* of objectives, strategies, and methods,

(2) *Operating* according to the plan,

(3) *Appraisal* of operating results to determine (a) quality of operations and (b) reasons for success or failure so that conscious improvement is made in future operations.

Describing the job of marketing management in further detail, Dr. John G. McLean recently listed the responsibilities of the marketing manager as follows:[2]

"1. *Responsibility for the Selling Job*

"First of all, we must, of course, lay heavy stress upon his responsibility for doing the selling job — effectively, economically and in a highly-competitive manner. Given whatever products we may have and wherever we may have them, it is the marketing manager's job to find customers for them and to see that they are sold in such volume and at such prices that we may earn a respectable profit. This is the traditional role of the marketing side of the business—the day-to-day, bread-and-butter job—and it will always be at the core of the marketing manager's responsibilities.

"To accomplish this end, our new marketing manager will have to do many things. He will have all the administrative and human responsibilities involved in recruiting, training, building, and supervising a sales organization. He will have the responsibility for such things as selecting sales territories, carrying out sales promotion and advertising campaigns, establishing price policies, developing suitable volume goals and expense budgets, determining adequate methods of compensation for sales personnel, and handling the difficult problems of customer relations which fall outside normal routines, or which are beyond the capacities of his subordinates.

"2. *Responsibility for Marketing Strategy*

"In addition to this traditional responsibility for doing a selling job, the new marketing manager today must also assume certain other responsibilities which are 'new' responsibilities in terms of the new importance they are assuming and the new emphasis which is being placed upon them. Foremost among these is the responsibility for the tactics of marketing in relation to a company's over-all program, and responsibility for the logistics of the entire distribution process.

"3. *Responsibility for Facing Business Facts*

"A third responsibility of the new marketing manager is one closely associated with that discussed above, namely, the responsibility for facing business facts in a hard-headed, realistic manner.

"This involves several different things. First, it is necessary to establish the organization and procedures to collect the facts—clearly we cannot face them until we have them. Accordingly, the new marketing manager must employ effectively all the techniques of market research, control reporting, and associated information-gathering activities. The information must then be digested and interpreted, and a constructive plan of action must be developed from the findings. Finally, it is up to the marketing manager to see that something is *actually done* about the results.

"4. *Responsibility for Innovations*

"The new marketing manager should next be charged with the responsibility for introducing and speeding the adoption of innovations in distribution methods. This task is essential for competitive reasons, and also because a constant stream of innovations is necessary for the economic progress of the nation. Only by finding new and more efficient ways of doing things can we realize a steadily advancing standard of living for our population as a whole. The responsibility for innovation is, therefore, important from both a business and social standpoint.

"5. *Responsibility for Defense of our Economic System*

"Finally, the new marketing manager should be charged with the responsibility for manning the front lines of defense in our efforts to maintain in this country the private enterprise system. . . ."

It is interesting to note that Dr. McLean places the responsibility for marketing strategy, the essence of which is planning, second only in importance to the day-to-day selling job. Marketing planning should be the foundation block underlying all other marketing activities.

Assuming, then, that we have a working idea as to where marketing planning fits in the responsibilities of the marketing manager, we may proceed to consider marketing planning in greater detail.

[2]*The Journal of Marketing*, Volume 23, No. 1, July, 1958, p. 1.

Nearly all the marketing executives with whom the writer has discussed marketing planning over the past few years claim that their companies do some marketing planning. However, on further questioning it has always become apparent that the activities referred to were really not marketing planning in any true sense of the word. For example, in one company what was referred to as a marketing plan was an advertising agency's recommendation as to choice of advertising media for the coming year. In another company, the marketing plan was actually a report of the results of a test market experiment. In still other companies, a variety of studies ranging from a study of competitors' advertising expenditures to a blind product test were misnamed marketing plans. Such relatively narrow studies and reports, necessary as they may be, do not constitute complete marketing plans.

What then is a marketing plan? One of the few written descriptions of a marketing plan is that of Mr. Clarence Eldridge, an outstanding marketing and advertising administrator:

> . . . "This next point is one that has become something of a fetish with me. It has to do with annual marketing plans. I am a great believer in the desirability of such a plan for each product. It presents an opportunity for the review of major strategy; it is especially valuable to new personnel connected with the account—at both the client and the agency end. It provides an opportunity for evaluating what has happened, and not happened, since the previous plan was made and approved; and it necessitates taking a fresh look at the whole business.
>
> "Such a plan should be as brief as it can be made and still do the job. But brevity should not be achieved at the expense of completeness and understandability. The plan should be sufficiently self-contained so that the reader will be able to understand the problems that are involved, and to follow intelligently the presentation of marketing recommendations and evaluate their soundness.
>
> "Included in such a plan should be a concise factual history of the product—the trend of volume over the years, the trend of its competitive position (if that is known), the amount of money that has been spent, year by year, in advertising and in other marketing activities; the profit history; any significant facts in connection with selling appeals, copy policy, pressure promotions; an appraisal of the effectiveness, or lack of it, of past promotions: an identification of the major problems and opportunities ahead; recommendations as to the amount of money to be spent for promotion in the year ahead and a detailed proposal as to the ways in which that money should be spent."

This contribution to the concept of marketing planning was constructive, worthwhile, and in 1952, when it was made, forward-thinking. For today's management needs, however, a broader, more comprehensive concept of marketing planning is needed.

Such a definition might be stated as follows:

A satisfactory marketing plan should contain:

1. A comprehensive review and penetrating analysis of the pertinent data on each aspect of the development and marketing of the company, product, or brand involved,
2. A complete and realistic description and appraisal of the present situation,
3. A specific statement of the objectives in terms of product development, profit, sales, share of market, etc., from both a short- and long-term point of view.
4. A description and analysis of all the marketing problems involved in reaching the objectives outlined in step 3 above,
5. A complete blueprint of the strategy and tactics to be followed in overcoming the problems involved and reaching the objectives. Such a plan should include all necessary recommendations regarding budgets and operations.

Each aspect of the entire marketing mix should, of course, be considered in all the detail necessary along with any other pertinent data, analysis, and plans. When properly completed such a plan should contain recommendations as to any significant question in regard to future product development, size of sales force, distribution patterns, marketing research operations, advertising copy platforms, and so on.

In attempting to construct such marketing plans, the writer has found it useful to approach the job in the following stages:

1. *Definition of Company Objectives*

The first step in marketing planning is for management to state specifically the objectives of the company. Such a statement should be agreed upon by the board of directors and the chief administrators. It should be based upon analysis of the company's resources and opportunities, and should describe in as much detail as necessary the niche in the economy that the company is to occupy, future product line, development, objectives in regard to size, diversification, integration, and so on. Market-

ing plans that are not based on such carefully-thought-out statements of corporate policy will always be subject to unnecessary, wasteful, and time-consuming review and change on a moment's notice. Much of the confusion and grinding of the gears that is so apparent in many large companies stems primarily from not defining objectives.

An example of this kind of problem arose recently in a large cosmetic company. Widespread confusion and dissatisfaction with results could be traced directly to the lack of agreement among top management as to the basic objectives of the company. One group was convinced that the company should concentrate on beauty preparations—mainly lipstick and other products used by young women to make themselves more attractive; a second group wished to build the company around skin treatment and preservation products that would appeal to women approaching middle age; a third group felt that the greatest opportunity lay in the field of heavily-advertised products and short-term promoting; the fourth group believed that the company should engage in all three of the above types of business. This basic disagreement understandably led to problems in the areas of product development, selling, distribution, advertising, and market research.

This type of problem seems to be found particularly in large multi-product companies. Until the question: "What business are we in?" has been answered completely and satisfactorily for all concerned, little headway can be made in marketing planning.

2. *Subdivision of Corporate Objectives into Product Responsibilities*

The overall marketing job must be next broken down into manageable subsections by products or brands. Let us assume, for example, that the board of directors of a large milling company decides that the firm should concentrate on breakfast cereals and baking mixes. Responsibilities must be divided and separate plans laid for both the cereal and baking mix businesses, and for each product brand involved. The overall marketing job might still be so large that it would be advisable to subdivide further the product classifications into responsibilities for one or more brands in the product field concerned. The formulation of specific marketing plans for each product and brand then becomes a manageable job to be tackled by those who are responsible for the marketing success of the products and brands involved.

3. *Gathering Information*

The actual marketing planning job for a specific brand should begin with gathering all the available information necessary to analyse the situation. This information should include every pertinent detail on all aspects of the marketing operation as outlined above, together with data on competitors' marketing activities and other pertinent factors. Since all the necessary data is seldom, if ever, adequately collected in the regular course of business, this step may take several weeks and amount to a great deal of work. It is nevertheless, an indispensable process. Without a searching collection of the facts, the work to be done in subsequent steps will be hampered seriously.

4. *Analysis of the Marketing Information Gathered*

All the diverse pieces of information gathered in step 3 above must be sifted, studied, and analysed. The focus of the analysis should be to answer in detail the questions: Where are we? How did we get here? Where are we headed? Trends should be plotted, competitive strategies studied, and the entire maze of facts and opinions carefully studied in great detail.

5. *Statement of Problems*

The thorough study of the situation should lead easily to a specific statement and description of the problems that block progress. At this point a word of caution should be made about the danger of over-simplifying problems or lumping together several related problems that should be separated and tackled individually. Experience indicates that a thorough job of information-gathering and analysis should lead to a statement of at least 15 or 20 basic problems. Examples of several such problems selected from a recent marketing planning investigation were: (a) lack of knowledge about what influenced consumer purchases of the product; (b) lack of knowledge about what consumers really wanted in the product; (c) low product quality; (d) incomplete distribution; (e) sales management ineffectiveness; (f) disagreement among management as to advertising copy and media strategies; (g) wrong use of sales promotion techniques; (h) costly but ineffective marketing research operations; (i) product priced too high in relation to competition; (j) disagreement as to future product development.

The statement of these problems has, of course, been greatly simplified for presentation in this article. In the actual marketing plan they were outlined in detail with as much as five pages being devoted to each.

The considered statement of the problems involved ranked in order of importance focuses attention on the difficulties faced and often helps bring about agreement as to where remedial action should begin.

6. *Outline the Solutions to Problems*

The solutions to some of the problems stated above will be almost self-evident. Where common sense and known facts suggest a ready solution to the problems raised, the solution should be outlined and the problem temporarily set aside, so that attention may be concentrated on the knotty problems that defy easy solution. For example, executives of a major cereal company found a serious problem in regard to product quality. Everyone involved knew that the cause of this problem was a deficient piece of production machinery. Since the machine was an expensive one, all concerned had for several years felt that the company should simply try to get by without correcting the situation. However, when the seriousness of the problem was finally recognized, agreement was rapidly reached that the necessary outlay for new equipment should be made. This problem was quickly passed over so as to concentrate attention on other difficulties in the situation.

Many problems can be handled in quick order, and the purpose of this step is to dispose of them immediately.

7. *Restatement of Unsolved Problems in the Form of Research Questions*

The remaining unsolved problems must be further analysed and stated in the form of research questions so that the necessary additional information, upon which a solution can be based, can be gathered. A large cosmetic company, for example, found in reappraising its marketing operation that its greatest problem lay in the area of distribution channels. The company had previously sold a high-quality, premium-priced line under a policy of highly restricted distribution primarily in department stores. The nature of the product line had changed, with the company getting increasingly into medium- and low-priced lines, and mass advertising appeals and media. Analysis of the situation quickly revealed the problem. Mass distribution was needed *immediately.* The sales organization opposed opening new accounts strenuously. "If we widen distribution," the sales manager argued, "we will lose business because our present dealers will stop pushing our products." Argument ensued, and it soon became evident that the problem should be stated in terms of a research question: "What will happen to sales through present outlets if distribution is widened?" The research was undertaken, and department store buyers and merchandise managers replied that if volume fell, they would stop pushing the product; if volume held or increased, they would continue to stock and feature it. The company opened four new accounts for each old one it had, greatly increased promotion, and sales increased by 600%.

The statement of problems in terms that are meaningful to research people is a necessary prior step to undertaking the research operation.

Parenthetically, it is interesting to note that many research operations are grossly wasteful because they do not approach research through marketing problems. In many large companies the basic research objective—to answer marketing questions—becomes lost. Often a research budget is appropriated and people are hired, and in the ensuing efforts to keep the wheels turning and people occupied, the research function loses its close contact with marketing planning problems. This in turn results in research that is not useful to anyone or for any practical purpose.

8. *Marketing Research Operations*

Marketing research operations must next be undertaken to attempt to find the answers to the research questions posed in step 7 above. In planning a research project the cost of the research must be weighed against the risk of operating without the information. One of the often-overlooked functions of a marketing research director is to give detailed advice to management as to whether the information that will probably be revealed by the research is likely to be worth its cost. Once it has been decided that it would likely be profitable to go ahead with the research, the objectives must be stated, methods decided upon, field work completed, tabulations made and results stated and presented to the marketing planning group.

9. *Interpretation of Research Findings*

Research results must be analysed and developed into conclusions that are useful in answering the research questions posed in the step above. Then the answers to the research questions must in turn be applied to the marketing problem that originally started the research cycle.

10. *Formulation of the Complete Marketing Plan*

The recommendations in regard to problems requiring research may now be combined with the recommendations upon which agreement was reached without research (step 6).

The marketing plan at this stage should be complete.

As already noted above in the descrption of the responsibilities of the marketing manager, planning is only one part of the three-phase (planning, operating, evaluating) management cycle. The plan must be put into operation effectively for the company to realize the objectives agreed upon the plan.

Because of the nature of the marketing operation, actual results will seldom, if ever, achieve exactly the objectives laid out in the plans. Key assumptions will prove to be inaccurate, objectives will be overly or underly ambitious, the ability of salesmen and advertising to produce business will be miscalculated, and factors which should have been taken into account will be omitted. This means, of course, that evaluation of results and reappraisal of the plan are absolute necessities. Only until a plan has been "broken in" and turned up over a period of two or three years can it be considered to be a really effective tool of top management. Moreover, the marketing plans for all the company's products or brands must be considered together by top management as the key to the entire company's policy planning function.

A major review and reappraisal of all marketing plans should probably be made annually in most businesses. Several large companies make this annual review in conjunction with the annual approval of financial budgets.

Who should make the marketing plan? Everyone who will have a part in the responsibility for managing the operations prescribed in the plan should be involved in the formulation of the plan. Presumably top management and the board of directors should accept responsibility for defining general objectives and policies. The responsibility for seeing that plans are made, used effectively in operations, and regularly reappraised and sharpened falls to the company's chief marketing executive. The brand or product manager responsible for the brand should be responsible for making the plan within the general framework laid out by those to whom he is responsible. The brand manager in turn should work closely with those in charge of the staff or operating organizations — advertising agency, advertising manager, sales manager, market research manager, and so on— who have responsibilities for marketing operations and who would probably be expected to gather information and draft at least that part of the plan with which they will be involved. It is obviously of great importance that all involved in operating the plan be in substantial agreement that it is sound and practical.

It would be satisfying indeed to be able to conclude this article on an optimistic note by reporting that more companies every year are making more effective use of marketing planning. However the writer's observations indicate that this is not so. Many marketing managers are having great difficulties keeping their jobs under control. They are simply unable to keep up with the rapid changes with which they are confronted on all sections of the marketing front. There are undoubtedly many reasons for this, but the writer is convinced that basic to many such cases is a lack of proper marketing planning. Moreover, if marketing planning were properly understood and practised, it would be much easier to deal with many of the difficult current problems in marketing in regard to the proper use of research, the function of advertising agencies, the place of creativity in marketing, and the new dimensions of marketing that have been introduced by the advances of science in the fields of communications, statistics, the behavioral sciences, and operations research. If marketers are to keep pace with the rapid advances in other areas of business, they must first master marketing planning. Such planning is the key to the proper use of all other scientific tools available to marketing management.

A man without history is like a sleep-walker who finds before him in the morning what he has done in his sleep. The nation that neglects to know its own history is limited to the short present of the now living generation. The business enterprise without records is bedevilled by the rush to catch up with developments that records would have enabled it to anticipate.

On the broadest plane, what reason is to the individual, history is to the human race. By virtue of reason, man is not, like the brute, limited to the narrow present, but also has available to him the incomparably more extended past with which the present is linked and out of which it has proceeded.

—The Royal Bank of Canada Monthly Letter

The Prospectus —

Cornerstone of Security Regulation

The prospectus required of all companies making new security issues is a most important element in the entire process of security regulation, says Mr. John Graham. In his paper, he points out where the prospectus fits in the financing of a business, and examines critically the form of the prospectus currently required.

JOHN GRAHAM

The prospectus, or public offer of securities, has been a key device in the regulation of security issues in Canada since 1934. Yet little is known about this important investment tool outside the financial community itself. It is the purpose of this article to describe the role of the prospectus in security regulation, the usual procedures involved in preparing a prospectus, and some of the shortcomings of existing regulations regarding prospectuses.

In the following pages, we will be concerned with prospectuses relating to industrial issues only, although any new securities issue—whether mining, oil or industrial—requires a prospectus. The legislative definition of the word "prospectus" is very broad, covering any offer to the public of securities by means of a prospectus, notice, circular, advertisement, letter or other graphic communication.

FUNCTION OF THE PROSPECTUS

The prospectus is an important element in securities legislation in Canada, and is required by law primarily to protect the investor. In the period prior to its being required by legislation, the prospectus was little more than an instrument for disseminating information, factual or otherwise, to help sell securities to the unwary public. In these years, some unscrupulous individuals used this device to misrepresent the facts of investment situations and thus, in effect, defraud the public.

Such abuses were prevalent in the 1920's and resulted in the formulation of laws designed to protect the investor such as the Ontario Security Frauds Prevention Act of 1930. As the times and circumstances have changed, so has the legislation, until today there is relatively complete regulation and control of the selling of securities.

In entering the field of security regulation, governmental bodies inevitably face a dilemma. On the one hand, they wish to ensure the provision of accurate and complete information to the investor by means of a prospectus. On the other hand, the government does not wish to give the impression to unsophisticated investors that acceptance of a prospectus for filing (in the case of the Dominion government), or for scrutiny and filing (as in Ontario's case), in any way implies that the government is passing on the quality of the investment. A prospectus for any investment proposal, no matter how poor the proposal itself, must be accepted if the prospectus meets the requirements of the pertinent Act. To protect the public, the government has followed the principle of full disclosure of all the pertinent facts concerned with a securities issue and puts the onus for evaluating investment worth, as it should, on the purchaser.

In Canada, prospectus legislation at the federal level is incorporated in the Dominion Companies Act (1934). This Act embraces all companies operating under Dominion charter, or companies that have been created by special act of parliament, and contains the statutory requirements for the information that must be included in the prospectus. The registration of this document is made by the Secretary of

State's office. This office does not, however, administer the prospectus requirements of the Act beyond making certain that the prospectus is dated and duly signed by all the directors of the company, or their attorney. It has become the provinces' responsibility to establish their own legislation and to police the sale of securities in the Canadian capital markets.

The provinces have thus had to enact legislation to regulate not only the provincially-chartered companies, but also the federally-chartered companies, all of which have to dispose of their securities in the provinces. Some of the provinces have established securities commissions to enforce the provincial Acts, one being Ontario which took the lead in the control of security trading many years ago. The current authority of the Ontario Securities Commission is the Securities Act, R.S.O., 1950. This Act vests a great deal of power and responsibility in the Commission —the licensing of companies and individuals engaged in selling securities to the public and the power to cancel these licenses; ascertaining that the prospectus meets the requirements of the Act; and the power to undertake investigations and prosecutions against violators. The scope of the Commission, then, is the complete regulation of the public trading of securities within the province. The Commission itself is under the direction of the Chairman, who is the chief administrator, and is divided into three divisions: legal, audit and registration. It is the function of the Registrar's office to accept or reject prospectuses, in addition to registering all securities salesmen in the province. The facilities of the Legal and Audit departments are used in the technical aspects of scrutinizing the prospectuses filed for registration.

These "blue sky"[1] laws of Ontario have set the pace for security legislation and administration, not only in Ontario but in most of Canada. The other provinces generally accept registration with the Ontario Securities Commission as evidence of full disclosure as far as the prospectus is concerned. Generally then, if a company's prospectus passes inspection with the Ontario Securities Commission, it is only a matter of form to get it registered in other provinces where the securities are to be sold.

The Ontario securities legislation is at present the most stringent in Canada, even surpassing the requirements of the Dominion Companies Act. Hence, a company with a Dominion charter will usually prepare its prospectus so that, in addition to complying with the federal regulations, it will also be acceptable to the Ontario Securities Commission.

[1]The term "blue sky" is said to be derived from the efforts of some securities salesmen in the early part of the century to whom "the sky was the limit" in their promises for an issue to prospective investors.

Most industrial issues have to find at least part of their market in Ontario and thus require Ontario registration.

The Ontario Act requires more detailed information on some points than does the Dominion Companies Act, and leaves the presentation of some pertinent information to the discretion of the Commission. Part 8, Section 39, Subsection 7, of the Securities Act states "Every earnings statement, balance sheet, pro forma statement and pro forma balance sheet mentioned in subsections 5, 5a and 5c, and any other financial statements or pro forma financial statement accompanying the prospectus, shall be drawn up in such manner and contain such information as the Commission may from time to time require". As a result, the usual practice when drafting a prospectus in Ontario is to take the rough draft to the Commission and make certain it is acceptable before filing the final draft. This enables the underwriters and issuers to proceed with the issue in the knowledge that they have met the standards required by the O.S.C.

PLANNING THE ISSUE

The part played by the prospectus in planning an issue may be seen from the following brief and simplified description of how an issue is carried out, from the planning stage to the final sale.

When an established company realizes it has a need for outside capital, it usually approaches an investment dealer, or underwriter, who individually or with a group of firms takes the responsibility for and sells securities issues. A new company usually has to rely on private sources of capital to finance its activity; the few exceptions such as Trans-Canada Pipe Lines Limited or Canadian Petrofina Limited, normally have competent, well-known managements that have proved their ability to manage an enterprise. Investment houses are, rightly or wrongly, reluctant to underwrite the securities of a new venture when the management and original promoters of the enterprise have not proved themselves.

The first thing a company and dealer do is generally to build the issue as they feel it should be, with due regard to maintaining the balance of the capital structure. The investment dealer will also discuss the proposed issue with various institutional investors at this time in order to make certain that the issue will be acceptable to them when it is finally offered for sale. This is essentially a bargaining process and may involve compromises between the underwriter and the institutional investor on the terms of the issue, since the underwriters usually must sell the institutional investor in order to "break the back" of an issue.

Normally from six to eight weeks may be spent in planning the issue before it comes to the market, with the over-all financial plan and the provisions of the prospectus taking the bulk of the time. When the issue is finally organized, the company and investment house sign an underwriting agreement or, as it is sometimes called, a purchase contract.

This lengthy agreement is designed to protect the underwriter from dishonesty on the part of the issuing company in supplying facts and figures, and also to formalize all other pertinent arrangements in connection with the issue such as the appointment of Transfer Agents and Registrars. This purchase contract is usually signed at the same time as the signing of the prospectus by the company officials and the underwriters. The significant part in connection with the agreement is the inclusion of an "out" clause for the underwriter. This clause allows the underwriter, to quote from an agreement, "to withdraw from the issue if any catastrophe of international or national effect which, in the opinion of the underwriter, has an adverse effect on the issue or if any accident, government regulation or other occurrence of any nature whatsoever, which in the opinion of the underwriter, seriously affects or may seriously affect the company's business or the financial markets." The clause is so all-embracing that, as far as the underwriter is legally concerned, he has not made a firm commitment to sell the securities. This clause is seldom used because it would obviously endanger the future business of an investment dealer were he to back out of an issue. Nevertheless, the underwriter always has this right at this disposal should he need it.

The physical act of drafting the prospectus is a function of both the issuing company and the underwriter. The document itself is usually drawn up by a group comprising the underwriter's specialist in prospectuses, the underwriter's lawyer, and the issuing company's lawyer. On occasion the number of participants involved may be larger, but this group forms the nucleus for composing the prospectus. During the formative stages the group works closely with officials of the issuing company in order to obtain the necessary technical information. The underwriter pays for publication of the prospectus and the issuing company pays the lawyers' fees, although paradoxically it is the company's prospectus and at least half of the legal counsel is the underwriter's. The cost of the prospectus ranges from $4,000 to $5,000 for the usual securities issue.

At the time these negotiations are being completed, the underwriter generally forms a "banking group" to help reduce the risk and distribute the securities. The members of this group buy a certain amount of the issue and agree to be responsible for marketing this amount. The banking group bears such selling expenses as advertising the issue on a pro rata basis based on their share of the total issue. The original underwriter usually becomes the group or syndicate manager but receives no compensation from the group for his time or overhead used in managing the group.

The next step is the formation of a "selling group". This involves organizing a large number of small security dealers and broker-dealers to participate in the issue. Individually, these dealers will account for a small percentage of the total issue, but collectively they usually take a substantial portion and thus ensure broad distribution of the securities. These members of the selling group are only liable for the amount they commit themselves to purchase from the banking group.

CONTENTS OF THE PROSPECTUS

The prospectus is usually composed of four definite sections. The first is the title page, which lists the name of the company, the amount, price and a brief description of the issue and the registrars and transfer agents. The second section includes a history of the company, the purpose of the issue, and what use will be made of the funds produced. The third section contains the pertinent financial statements and data of the company. The fourth and final section lists the statutory information required by law. This information should be presented, in the words of one investment dealer, "so that the investor can make an intelligent appraisal of the issue". This statement assumes that the investor is sophisticated and knowledgeable of accounting techniques and legal terminology. If he is ignorant in these fields and unaware of risks involved, then it is doubtful that he can make a competent decision as to the investment worth of an issue.

The major items of prospectus information required in Ontario in the primary distribution of a security are enumerated as follows:

1. The laws under which the company was incorporated.
2. The names, addresses and occupation of the officers and directors of the company.
3. The name and address of the auditor of the company.
4. The particulars of the existing share capital of the company.
5. The particulars of the securities to be offered for sale.

6. A description of any substantial indebtedness to be created which is not shown in the balance sheet of the company.
7. Details of any options on any securities of the company.
8. The estimated net proceeds the company will receive from the security offering.
9. The specific purposes for which the proceeds are to be used.
10. Any other sources from which funds are to be raised.
11. The amount of funds required to pay: the purchase price of any property to be acquired; preliminary expenses of the company; commissions; and bank loans outstanding.
12. The details of the underwriting agreement.
13. The aggregate salaries paid to officers receiving in excess of $10,000 per year.
14. The aggregate remuneration of the directors and any provisions of the by-laws of the company as to the remuneration of the directors.
15. The names and addresses of the vendors of property purchased, specifically stating the amount, if any, paid for goodwill.
16. The details of any securities issues of the preceding two years.
17. The details of any payments within the two preceding years to any promotor.
18. Full particulars of any interest a director has in any property acquired within the two preceding years or to be acquired by the company.
19. Where shares are being sold, the names and addresses of any individuals that, by reason of beneficial ownership or agreement, are in a position to elect a majority of the directors of the company.

IMPROVEMENTS SUGGESTED

To the company that is having its security issue underwritten, the prospectus should be more than merely an expensive document required by law. In addition to presenting the pertinent data required, the prospectus provides an opportunity to tell what the company has done, what it is doing, and what it hopes to do in the future. The prospectus of Trans-Canada Pipe Lines Limited is a good example of what can be done in this regard.[2]

[2]It should be pointed out this prospectus was drawn to meet the Securities and Exchange Commission requirements in the United States.

On the whole, prospectuses do provide the reader with a reasonably good presentation of the necessary facts. Indeed, if the prospectus were any larger (most current Canadian prospectuses run to roughly 25 pages), it is unlikely that most investors would attempt to get the "meat" out of them. It is the author's opinion that as prospectus legislation now stands in Ontario, most of the material facts are provided with one exception: the sales or gross revenues of the company. The incorporation of this figure into the prospectus would be a major improvement for the prospective investor; it seems only logical that this data be included if the principle of full disclosure is to be adhered to consistently.

Many interested parties would immediately reject this suggestion. The usual reason advanced for a company not releasing its sales figures is that it would be foolish to let competition know this information.

In the light of modern-day conditions, however, this attitude makes little sense. There is little doubt that most major companies in Canada know the approximate sales and share of market enjoyed by their chief competitors. The publication of these figures in prospectuses thus does not appear to give any undue advantage to competitors. The practise of requiring sales data has been carried on in the United States for many years without apparent damage.

On the other hand, such data would give the investor an excellent tool to aid him in evaluating a security issue. In estimating management's ability to produce profits—their primary reason for existence—the investor often finds the percentage of operating profit[3] to sales a more meaningful figure than the ratio of operating profit to total assets or to shareholders' equity. The sales figure is a relatively current one, whereas the total assets figure or shareholders' equity are book figures whose real or current value often has no relation to what appears on the balance sheet. The opportunity to use revenue data in making an investment decision would be of great value to the investing public, and there are few reasons for companies to withhold these figures. It is the responsibility of the underwriters and chartered accountants to convince companies they should voluntarily release sales information in their prospectuses when they are seeking funds by way of a security issue. The only alternative is for the respective governments to take the initiative by incorporating this requirement into current securities legislation.

[3]By operating profit the writer means the profit earned by the operation of the company before the deduction of taxes and such non-cash deductions as depreciation.

SUMMARY

The use of the prospectus is, in the final analysis, the foundation of security legislation. Although not perfect, it is the one tool that provides the investing public with the facts of an investment situation, no matter what those facts may be. The onus is on the public to evaluate those facts and reach a decision as to whether the investment is good or bad. The function of the regulatory body is neither to approve nor disapprove of an issue as to its investment worth, but to ensure that the required information is made available to the public. If this disclosure produces evidence of an attempt to defraud or misrepresent the facts, then, of course, it is the responsibility of government to take the necessary action to protect the investor.

Requiring the publication of sales figures in a prospectus would better enable investors to evaluate security issues. There seems to be little logical reason not to provide sales figures. It has been accomplished in the United States where securities legislation requires the disclosure of sales or gross revenue in the primary distribution of securities. Without recourse to the revenue figure the investor most certainly is not enjoying to the greatest extent possible benefit of full disclosure, which is the principle upon which security legislation is based.

Price Spreads:

HOW HIGH IS TOO HIGH?

Concern over the widening gap between the prices paid for food by consumers and the prices received by farmers, has led to a recent Royal Commission investigation. Most of the submissions saw dangers in this gap, and suggested remedial legislation. In the article that follows, the author takes a dissenting viewpoint, and raises economic and philosophical issues which he believes require answers before any action is taken.

DAVID S. R. LEIGHTON

At various times over the last quarter century, the federal government has appointed Royal Commissions to investigate price levels or price "spreads". At the present time, yet another such commission is touring Canada investigating the spread between food prices paid by consumers and the prices paid to farmers. The chairman, Andrew Stewart, president of the University of Alberta, has been reported in the press as defining the commission's job by pointing to charts showing historical trends in food prices paid at retail, and prices paid to farmers. The two lines have tended to diverge in recent years, and Mr. Stewart is quoted as saying that it is the commission's job to find out why this has happened.

Although it has been argued that the creation of the commission was really only political window-dressing, designed to take the pressure off the government at a time of price inflation, let us accept the investigation at face value and assume that the government is sincerely concerned about price spreads from the standpoint of economic welfare and equity to all groups involved. Why have price spreads increased? Are they too high? What, if anything, should be done about them?

It is significant that the overwhelming majority of the submissions have taken the viewpoint that this widening price spread is somehow a bad thing. They have suggested a number of causes for this allegedly evil state of affairs, and put forward a bewildering variety of recommendations for remedying the situation. Even the alleged culprits—the food processors and distributors—have taken essentially a defensive and negative viewpoint, much like the accused in court.

It is the author's firm belief, however, that there is nothing wrong with widening price spreads; in fact it will be argued that such spreads have been largely a reflection of improved standards of living, and should by no means be discouraged. The reasoning behind this point of view will form the substance of this paper.

WHY HAVE PRICE SPREADS INCREASED?

The submissions, as reported in the daily press, have centered on two main explanations for the widening price spreads:

1. There has been an increase in the use by processors and distributing organizations of competitive advertising and sales promotional devices such as trading stamps, premiums, contests, elaborate packages, and the like. The remedy that is usually urged is to legislate against such methods of promotion.

2. The trends within the industry towards integration—both vertical and horizontal—have led to the growth of giant processing and distributing firms. This, in turn, has caused an imbalance in the relative bargaining power of farmers and consumers. The remedy generally suggested is the encouragement of farm organizations such as the marketing boards that have recently been the centre of much controversy in Ontario.

THE GROWTH OF COMPETITIVE PROMOTIONS

A large number of submissions have concentrated their fire on competitive promotions. Typical of this line of attack is the following excerpt from the Toronto *Globe and Mail* for Saturday, Sept. 13, 1958.

"The prize in every package sales gimmick was attacked from three sides yesterday as the Royal Commission on Price Spreads of Food Products opened hearings in Toronto.

"The first attack came from a representative of the Co-operative Union of Ontario, and was later echoed by the Canadian Association of Consumers and the Ontario Farmers' Union. All said such methods of boosting sales helped widen the spread between producer and consumer prices.

"C. M. Haapanen, manager of the Consumers Co-operative Society Ltd., at Timmins, said manufacturers competed for the consumer's dollar by fancy packaging, or cents off the price, coupons, prizes of various kinds packed in the package or available with a coupon or wrapper label.

" 'They stuff more trinkets in their packages than soap,' he said of the three major soap manufacturers. This type of merchandising added to the cost and this had to be borne by the consumer.

"Mrs. W. A. C. Shepherd, of London, provincial president of the Canadian Association of Consumers, struck a similar note when she said consumers hoped the premium and something-for-nothing period was nearly over.

" 'They seek the right to choose a package containing toys, seeds, towels, etc., or a similar package free from these so-called gifts,' she said.

"Mrs. Shepherd also threw a punch at some advertising methods which she felt served only to add to the consumer cost of products, and widen the price spread.

" 'Consumers do not like paying indirectly for advertising in which some companies compete against themselves in rhyming childish radio ditties and slap-dash TV drawings,' she said.

"Gordon Hill of Varna, president of the Ontario Farmers' Union, also struck out at the 'so-called free gifts, bonuses and other misleading advertising.' He suggested elaborate packages, and individual serving packages were not necessary, along with trading stamps and those types of advertising aimed at children.

" 'Mothers of young families have been subjected to this insidious form of persecution for too long, in our opinion,' he said."

There is no doubt that recent years have seen a proliferation of such promotional devices. There is also no doubt that some of these have not only become irksome, but have exceeded the bounds of good taste. Who has not at one time or other complained about soap operas, jingles, or tasteless commercials?

The difficulty comes when we attempt to assess the blame for this state of affairs, and to plan ways of remedying the situation. Premiums, promotions, give-aways, and singing commercials are not the malicious creations of stupid, tasteless advertisers. For the most part these men are at least as intelligent, honest and sincere as the people to whom they attempt to sell. But they are paid to make sales, and experience has shown that in many cases, giveaways and rhymed commercials are the most effective means of making sales. To put it bluntly, we get what we, as consumers, want. If we did not respond to promotional gimmicks, there would be no promotional gimmicks. If we weren't willing to pay more for fancy packaging, there would be no fancy packaging. The finger should not be pointed at the advertiser, but at the consumer. If our commercials are tasteless, it is because we, as consumers, are tasteless.

The author recently discussed this question with the advertising manager of a breakfast cereal manufacturer. He made the following comment:

"I'd like nothing better than to cut out all the contests, box-top offers, toys and novelties that we have to deal in now. I'd love to sell the product on its merits. But we've tried to do without them, and each time we have been burned—people just won't buy our products without the gimmicks. The fact of the matter is that they *want* the gimmicks, and we have to give them to them."

The blame, if indeed there is to be any, must rest squarely with the consumer. The recommended solution advanced in most cases is to eliminate, through legislation, such competitive promotional devices.

There are three basic objections to any such action:

1. Individual freedom of choice and competition are the foundations of our society, and it is incompatible with our approach to life that we attempt to tell consumers what they may or may not buy. They alone must be the judges of how best to spend their money.

2. The assumption behind eliminating such devices is that competitive marketing costs would thereby be reduced, and both farmers and consumer would benefit. There is reasonable ground to question the validity of any such naive assumption.

3. There is good reason to suspect that all the advertising and promotional expenditures totalled together do not amount to more than a small proportion of the so-called price spread. Neil H. Borden has estimated that such expenditures amount to 2% of the Gross National Product in the U.S. It is suggested that the Commission might find it useful to do some research into the actual extent of such costs in relation to the Canadian food industry.

The so-called "gimmicks" and other promotions are merely symptoms of keen competition; it seems ironic that we should have groups advocating suppression of such competition at the same time as the Restrictive Trade Practices Commission is actively engaged in trying to preserve and foster competition in other industries. The advocates of prohibition or regulation of competitive promotion are, in a sense, arguing that we should cut off our nose to spite our face: that because some aspects of competition annoy some of us, we should therefore reduce the avenues in which competition may operate. They overlook the fact that this active competition has conferred benefits in terms of new products, innovation, and efficiency that are unmatched in virtually any other industry. The potential danger in lessening this competition is surely much greater than that which singing commercials may cause to our taste and morals.

THE GROWTH OF INTEGRATION

A more thoughtful approach has noted the growing trends to integration in the food industry. Wider price spreads are attributed to the imbalance in bargaining power of farmers and consumers on the one hand, and processors and distributors on the other.

The growth of large, integrated processors and distributors has been a striking feature of the food industry in the last 25 years. At the processing level, we have seen the emergence of such giants as General Foods, Standard Brands, National Biscuit, General Mills, and Canada Packers. At the distributing level the chains — Dominion, Loblaw's, Steinberg's, Safeway, A. & P. — have taken over nearly one-half the grocery volume in Canada; the "Mom and Pop" store is rapidly vanishing.

This integration took place initially at the processing level, and for some time the large processors played the dominant role in the industry. Of late, however, by a sort of "countervailing power", the large chain distributors have grown to the point where a rough balance of power has been struck.

This sort of balance has not yet been struck in the relationship between farmers and processors, or farmers and distributors, although there are signs that the countervailing force is rapidly growing even here. It is argued that this imbalance in power enables the processors and distributors to pay the farmer too little and charge the consumer too much —in short, that the processors and distributors are either (a) making large and undue profits, or (b) are inefficient.

To anyone acquainted with the large processing and distributing companies, such charges must seem absurd. One has only to look at the published statements of the food processors and chains to conclude that profits are in no sense undue. The processors particularly have operated at low levels of return, both on sales and on assets. The chains have shown good returns on assets, but their profits as a percentage of sales have typically been of the order of 1 or 2%.

It can be argued, of course, that they must then be inefficient. This charge is equally absurd. The food chains have brought the art of distribution to a point of efficiency almost without parallel in today's economy. Some of our largest processors are among the most progressive and ably-managed manufacturing concerns in Canada today. Examples of inefficiency can undoubtedly be quoted, but there are probably fewer inefficiencies in food processing and distribution than in any other major Canadian industry.

In the future, the growth of organized agriculture, with its improved bargaining position, may well act as a spur to even greater efficiency and productivity at these levels of the industry. Caught between the pressure of consumers on the one hand, and farm marketing boards on the other, the processors and distributors may have to seek even greater productivity than now exists.

More likely, however, is that the growth of farm marketing organizations will lead to higher food prices to consumers. Our preceding analysis has argued that there is little "fat" at either the processing or distributing levels; higher farm prices therefore must to some extent be passed on in higher retail prices. If the farmer is to get more, the consumer will have to pay more. The relative share of the consumer's dollar going to farmers may be increased, but only because the consumer is paying more dollars than before—not because processors or distributors are receiving less.

CHANGING STANDARDS OF LIVING

In the author's opinion, neither of the reasons that have thus far been advanced—increased competitive promotion, and growth in integration—give

more than a partial explanation for widening price spreads. What, then, has caused the phenomenon which Chairman Stewart has noted?

The answer lies primarily in the change that has taken place in consumer wants, and consequently in standards of living. These changes have been tremendous. It is not so long ago that one bought biscuits, sugar, and other commodities in bulk from a barrel. Cake mixes, instant coffee, prepackaged cuts of meat, detergents, many fruits and vegetables — all were unknown. Today, new and improved products come on the market with amazing frequency.

A tremendous upgrading of consumer wants has taken place in the last generation. That this has been accomplished at such modest cost to the consumer is little short of miraculous.

The majority of these changes have taken place at the processing or distributing levels, and it is for for this reason that these segments of the industry have accounted for an increasing share of the consumer's food dollar. Progress in farming has undoubtedly helped, but the most significant advances have been in such things as refrigerated storage and transportation, higher quality standards, more convenient packaging, new or improved consumer products, greater variety, and the like. Such improvements have emanated largely from the processors and distributors. The chief contribution of the farmer has been in terms of lower costs and increased productivity.

CONCLUSION

If this explanation is valid, then the argument that price spreads are too high and that so-called middlemen are taking too large a share of the consumer's food dollar seems completely unjustified. It should be apparent that steps to reduce this spread, rather than helping the consumer and farmer, would be a retrogression. Advocates of this approach seem somehow to be yearning for a return to conditions of a quarter-century or more ago, blissfully unaware that the world has changed—in this respect at least, for the better.

Paul Mazur once asked, "Does Distribution Cost Enough?" He argued that it was by means of these seeming "wastes" of competitive marketing that our economy derived much of its forward thrust. Mr. Mazur's question, transposed to the existing investigation, might well have read: "Are price spreads high enough?" Perhaps an investigation along this line would produce more fruitful results for us all—processor, distributor, farmer and consumer.

Canadian Taxation and the Businessman

K. W. LEMON, F.C.A.

The parliament of Canada at its recent session enacted the Estate Tax Act which has been under discussion for some years. This new Act, which will replace the federal Succession Duty Act, establishes an entirely new basis for the taxation of the estates of Canadians. It is a true estate tax under which the tax is computed only by reference to the size of the estate and, unlike the predecessor statute, is not related to the size of bequests to individual beneficiaries nor to their relationship to the deceased.

The scheme of the new Act is much simpler than the Succession Duty Act, so that both the authorities and estate executives should experience less difficulty in its application. It also contains many other features which will be welcomed by Canadian taxpayers. It permits more generous personal exemptions which, strangely enough, depend only on the existence of surviving dependents and are not lost if such dependents do not benefit from the estate. The effect of these exemptions, together with the new graduated scale of marginal rates (similar to the federal Income Tax Act), will be to reduce the amount of tax payable by most estates. Percentagewise, the reduction of tax is most marked in the case of smaller estates where, for example, the tax payable on a $100,000 estate of a married man is only approximately one-third of the amount payable under the old Act.

One of the major benefits which has been conferred by the Estate Tax Act is the clarification of the law with respect to treatment of joint interests and the proceeds of insurance on the life of the deceased where the premiums have been paid by his wife or children. The new law in its final form clearly recognizes the "Ownership" concept. Accordingly, the taxable estate of a deceased person will include only the value of his interest in property held jointly even though he may have provided the total funds for the original acquisition of such property. Similarly, the proceeds of life insurance policies will be included in the taxable estate only if the deceased owned the policy. On this basis the proceeds of life insurance purchased by wives or children will not be subject to tax even if funds to pay the premiums have been provided by the deceased.

It is important to realize that The Estate Tax Act has not yet been proclaimed and may not actually come into force for several months. The old Succession Duty Act, therefore, is applicable to the estates of persons who die before the new Act is proclaimed. Also, residents of Ontario and Quebec will understand with regret that the benefits of the lower taxes and the clarification of the treatment of third party life insurance and joint interests are reduced to one-half for them, as there has been no change in the two provincial Succession Duty Acts. The residents of these two favoured provinces will look forward to the time when their provincial legislatures will take action to bring their statutes more in line with the new federal Estate Tax Act.

Canadian Law and the Businessman

JOHN P. ROBARTS, Q.C., M.L.A.

In May, 1958, Premier L. M. Frost appointed a committee on the Organization of Government in Ontario. This committee was given very wide powers. In fact, Mr. Frost has stated that it was free to set its own terms of reference, and, if necessary, it would be given the authority and powers of a Royal Commission. Its report will be awaited with interest.

The committee has as Chairman Mr. Walter Gordon of Toronto. Mr. Gordon will be remembered as Chairman of a Royal Commission appointed by the Government to investigate Canada's economic prospects. The two members are Mr. C. R. Magone, Q.C., formerly deputy attorney general for Ontario, and Dr. W. A. Mackintosh, Principal and Vice-Chancellor of Queen's University.

This committee can be of great assistance to the Government, the Legislature and the people. The growth of administrative tribunals in number, scope, and influence on all facets of our life in the province has been rapid, and there are few of us indeed who have not run into one or more of these bodies in the day-to-day conduct of our affairs. To name only a few of the boards operating throughout the province today there are the Workmen's Compensation Board, Municipal Board, Liquor Control Board, Liquor Licence Board, Ontario Highway Transport Board, the Cemeteries Advisory Board, the Labour Relations Board, the Ontario Hydro Electric Power Commission, the Securities Commission, and the Racing Commission.

These bodies hold hearings, take evidence and render decisions which have varied and often very profound effects upon the lives and businesses of all our citizens. Their form, procedure and operation has been widely criticized of late.

We must first recognize that administrative tribunals are here to stay. They are a necessity in the administration of our government which is taking an ever-increasing interest, and therefore exercising ever-increasing control, in the welfare of the people. But are there some practices and procedures which have developed which might very well be curbed at the present time?

There has been a growing feeling that some of the Boards and Commissions have been acting in an arbitrary manner, not only to those members of the public who come under their particular jurisdiction, but also toward the Government itself. The phrase "shoving the people of Ontario and their government around" has been used, and it is to comment on this very point that the committee has been brought into being.

This attitude to Boards and Commissions has been brought about by several characteristics. The first is the lack of regular procedure before one or any number of tribunals and a consequent lack of a proper or satisfactory appeal. There is certainly no uniform procedure and in some cases no fixed or predetermined procedure at all. This makes the average citizen, and certainly his lawyer, very uneasy. We are all brought up with a background of "The Rule of Law", properly enforced and fitting into well-defined grooves of procedure and protection for those appearing before our courts. These familiar characteristics are lacking and have engendered continuing opposition to tribunals in general. Of course, in seeking for speed, efficiency and above all cheap administration, the cumbersome procedures of pleadings, and trials with formal appeals necessitating further appearances, have been deliberately withheld.

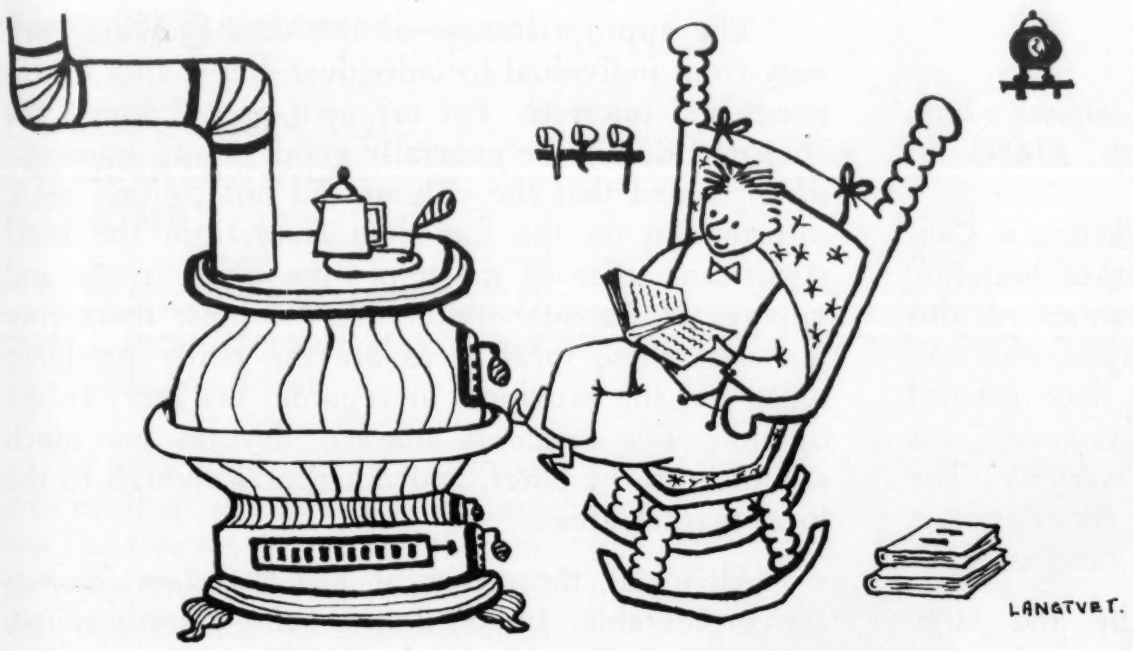
The committee, in its newspaper advertisements, has stated that it is sitting to inquire into the relationship of Provincial Boards and Commissions of the Government of Ontario, the Legislature and Government Departments with a view to:

(a) Preserving Governmental responsibility and ensuring effective control by the Legislature over public expenditure and decisions;

(b) Maintaining high standards of administrative economy and efficiency in all branches of the provincial services;

(c) And other matters relevant thereto.

From these purposes we can see that the committee is aware of the possibility of Boards and Commissions actually usurping the powers of the Government and the Legislature in the field of public spending as well as general government, and yet is also aware of the need for streamlining procedures of administration in the ever-increasing jungle of governmental intervention in the affairs of our people. Let us hope their deliberations produce answers and solutions, as the problem is one of great difficulty.



BOOKS FOR THE BUSINESSMAN

AND MARK AN ERA

by Melvin T. Copeland, Little, Brown & Company, Boston. 368 pp., $6.00.

This book is a well-written account of the 50-year history of the world-famed Harvard Business School. The opening pages are devoted to the decision of one of the world's great universities to commence the teaching of business administration; this step was taken not only because graduates of Harvard went into business, but also because of the emergence in business affairs of the professional administrator, as contrasted with the entrepreneur. From the start, the program was aimed at students of graduate level.

There is an interesting account of how President Eliot and his new Dean, Edwin Gay, pledged the teaching of this new institution to what was to become known as the case system, even though at the time they had no cases. The thought behind this significant decision was that business education should be based on facts and not theories. Likewise, shortly thereafter the Bureau of Business Research was founded with the objective of enriching classes and assisting business.

The author describes the many temptations early in the century for the School to adopt a highly-specialized approach to its teaching. As he points out, Harvard has never done this, but has consistently held to the premise that their graduates should be trained for positions as top administrators. As such, they were trained to analyse facts and make decisions —often in an atmosphere that was rapidly changing. As Professor Copeland points out, a continuing problem of instruction has been to convince students that in business situations there is no one "right" answer.

Much of Copeland's book is devoted to a description of the gradual evolution of the case system, for which he as much as any one man was responsible. He also describes how, in 1943, when the school was wholly concerned with military problems, a group of faculty members laboured overtime to re-examine completely the post-war approach of the School. One of their great contributions was to revamp and add courses giving recognition to the fact that since 1933 administrators have had to deal with new conditions based on the entry of government into business, increased taxation, strong labour unions and heavy agricultural surpluses.

The book also covers comprehensively such matters as the background and admission of students, the philosophy underlying their instruction, orientation and placement, the research activities of the School and the role of a business library. Detailed attention is given to Harvard's experience with the various management courses designed for businessmen, labour leaders, and others.

The final pages of the book describe the methods whereby the Harvard Business School shares its ideas with education, government and industry by means of conferences, research reports and its noted business journal, The *Harvard Business Review.*

The idea for this book as a key element in the School's 50th Anniversary celebrations was conceived by the present Dean, Stanley F. Teele. The choice of an author was particularly happy because Professor Melvin T. (Doc) Copeland has had the unique experience of knowing intimately the four men who have served the school as Dean in its 50 years of experience.

F. W. P. Jones, Dean
School of Business Administration,
University of Western Ontario

THE CANADIAN MARKETS

by the J. Walter Thompson Company, Ltd., McGraw-Hill, New York, 1958, 178 pp., $18.00.

For many years, the practise of marketing in Canada has suffered from a decided paucity of literature covering the distinctively Canadian features of this market. Now, less than three months apart, two volumes addressed to this specific theme have reached publication. The first, *Marketing in Canada,*[1] was reviewed in the Summer issue of the *Quarterly.* The more recent publication, *The Canadian Markets*, is a logical complement and companion for the first.

Whereas *Marketing in Canada* by and large takes a non-statistical approach to a comprehensive list of subjects ranging from anti-trust legislation to the problems of hiring and training Canadian marketing personnel, *The Canadian Markets* is almost wholly statistical. It attempts to draw together significant data of interest to marketing men from such sources as Dominion Bureau of Satistics reports, Provincial economic surveys, and the Report of the Royal Commission on Canada's Economic Prospects.

Few who are engaged in marketing in this country could question the need for such a publication. The torrent of figures that streams forth daily from D.B.S., while in a sense admirable, often creates problems for the individual or company attempting to maintain an adequate reference library with limited resources of training, time, space and money. The tremendous volume of statistical data that is available often makes a search for a particular statistic time-consuming and frustrating. And the variety of sources of statistical data, while not a problem in Canada to the extent that it is elsewhere, is still often a source of confusion and irritation. For these and other reasons, the staff of the J. Walter Thompson Company has set itself a very desirable objective.

In the main, they have done an excellent job. The book is organized into three main parts: Canada as a whole, the Provinces and Territories, and Selected Supplementary Data. In the first two parts, the authors make use of 12 major factors to examine each of the markets, factors designed to gauge "the nature, size, stage of development, rate of growth or accessibility of the market. It is possible, for instance, to make comparisons for the country as a whole and province by province, by such characteristics as population, production, income, distribution, and consumption." Part Three, containing supplementary data, is primarily concerned with estimates of future developments.

[1]*Marketing in Canada,* Fox and Leighton, editors, (Richard D. Irwin, Inc., Homewood, Illinois, 1958).

The appropriateness of the data included will vary from individual to individual, depending on his needs and interests. For my own part, I found the choice of data to be generally good. I was, however, disappointed that the volume did not contain more information on the Canadian *markets* in the most significant sense of the term—the cities, towns and villages of Canada. After all, for most marketing purposes these local areas are the really pertinent units, not the provinces or regional markets. In my opinion, *The Canadian Markets* devotes too much attention to the latter, and not nearly enough to the local market areas.

All in all, the merits of *The Canadian Markets* are considerable. In addition to being a ready source of statistical data, the book contains many excellent maps, including a large fold-out map showing the Canadian markets ranked according to their population, number of households and disposable income. This map is apparently intended for framing, and is most suitable for that purpose.

David S. R. Leighton,
Associate Professor, U.W.O.

INTRODUCTION TO MODERN STATISTICS

by Werner Z. Hirsch. The MacMillan Company, New York, 1957. 421 pp., $8.75.

In general, one might say that statistics texts fall into two categories. The first category would include those that are readable and are understandable but really don't get to the heart of some of the important areas. The second category would include those texts of many pages which explore in highly technical language most of the important areas, although few of them deal adequately with the important concepts of expected value and decision making.

"Introduction to Statistics" contains adequate materials for a complete course, and also includes understandable explanations of expected value and rules for decisions. It is significantly shorter than most texts included in the second category. It is also readable, and amazing as it may seem, includes a good supply of humor. For the student the book should be of considerable help. It should also have an attraction for the non-expert who occasionally wishes to investigate and learn about the awe-inspiring jargon of his statistical-minded collegues.

J. C. Taylor,
Professor of Business
Administration, U.W.O.

INTRODUCTION TO INTERNATIONAL ECONOMICS

by Delbert A. Snider, Richard D. Irwin, Inc., Homewood, Illinois, 1958, 598 pp., $7.00.

The usual approach to a study of international economics is to analyze the five major areas of the subject. Generally, these five areas are: the significance of international economics, international trade theories, disequilibrium and adjustment of international payments, barriers to international trade, and the stability of the international economy. Professor Snider's latest book does not differ from this basic approach, but has what might be considered interesting additions to a subject about which much has been written. For example, it includes five new chapters concerning statistics of international business, attempts by nations of the world to achieve full convertibility of currency, obstacles to convertibility, recent commercial policies of the United States and the use of international capital and technical assistance in the economic growth of under-developed countries.

In addition to the new subject matter, the author uses a refreshing approach to the study of international economics. By drawing frequent analogies to business situations which could concern an individual or a corporate business enterprise, he makes the problems of international economics more readily understandable. Also, by repeated summaries of preceding chapters in the introduction of new chapters, the book is more easily read and the continuity of the various parts of the book is retained.

Professor Snider finds international economics to be of increasing significance in our society and, he explains:

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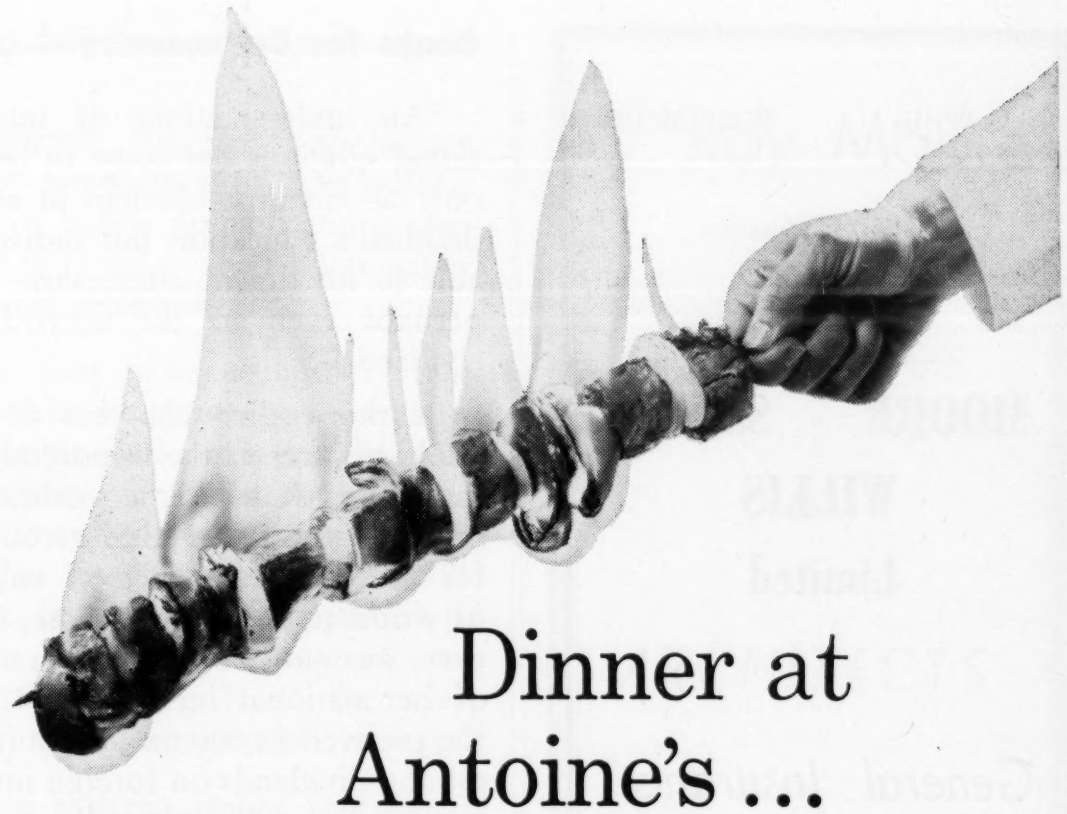

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Books for Businessmen — cont.

"An understanding of international relations has come to be not only an essential element in an individual's education but indispensable to intelligent citizenship—and perhaps even to the survival of civilized life."

In the earlier chapters of the book, he stresses the importance of the United States in the world economy. In 1954, the U.S. accounted for over 45% of the total volume of world trade. This volume, however, was only a very small fraction of her national income. In 1956, she received $3,600 million in interest and dividends on foreign investments of over $49,000 million. It is therefore understandable that he devotes such a large part of his book to an analysis of the economic problems of this one nation.

The concluding chapters of the book discuss the problems of international stabilization and the significance of United States foreign policy in the world economy. American policy, he says, has been inadequate because of the insufficient amounts of assistance extended by the United States, the uncertainty of the assistance, and the unsatisfactory conditions under which assistance has been granted. The author suggests two courses of action to improve the situation: A stronger executive leadership to formulate and approve foreign economic policy, and an informed and aroused public opinion to give strength to executive policy decisions.

John G. Myers,
Instructor in Business
Administration, U.W.O.

THE MASS COMMUNICATORS

by Charles S. Steinberg, Harper & Brothers, New York, 1958. 470 pp., $4.50.

This is a comprehensive work, combining a survey of the histor-

continued on next page

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Books for Businessmen — cont.

ical growth, function, and impact of the communication arts with a study of public opinion and propaganda in terms of their relationship to public relations.

The first basic premise is that the public relations man needs a knowledge and understanding of the science of semantics in order to write and disseminate top policy speeches or statements that will avoid flagrant misinterpretation. Public relations is no longer a tool of management. It is the very function of management itself.

Main concern is not centred in the purely technical or scientific application of principles, but rather with the functional or operational characteristics of mass media, public opinion and public relations. The transition from ideological exposition to situational application, nevertheless, is skillfully accomplished.

Doctor Steinberg is Director of Press Information, Radio Division, of the Columbia Broadcasting System and a lecturer in communication arts at New York University. Despite his obvious interest in this field, he does not overemphasize the role of the audio-visual media in public opinion formation or public relations. Rather, in a progression through seven sections he tries to lead one from the consideration of semantic symbols to a delineation of practical public relations concepts, illustrating various approaches in the fields of business, human relations and education.

Section one is a far-reaching consideration of mass communication as applied to public relations.

Section two shows the ties between public opinion and public relations through such concepts as the impact of multiple publics, and public opinion polling.

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Books for Businessmen — cont.

Section three considers the structure and scope of the mass media: the newspaper, the broadcasting media, the motion picture, and international communication.

Section four covers public relations in practice — organizing for public relations, policies and practices, tools of the trade, the publicity phase.

Section five outlines areas of practice, mainly business, government and education.

Section six brings in the concepts of propaganda and ethics in a timely fashion, showing the dangers inherent in public relations "out of control".

Section seven is a description of successful public relations in action. Examples are given of policies and practices in various fields of endeavour — magazine publishing, transportation, trade association, business institution, education, foundation, the arts, family service, human relations, business ethics.

The purpose of public relations as a management function, the author maintains, is not only to effect a change in the attitude of business toward the public, but also to interpret this attitude to the public by means of the mass media, measuring public opinion to gauge the impact. The operating philosophy of good public relations is to convince management to undertake constructive deeds in the public interest, and to convince the public that what business accomplishes is in the public interest. The author maintains that the best proof of this is in rendering constant, sincerely-motivated public service to consumers and community.

Reduced to a single phrase, public relations, as seen by Steinberg, means doing and telling — living right and getting credit for it.

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Books for Businessmen — cont.

Growth of public relations to the status of a profession will be dependent upon recognition on the part of practitioners and public alike. To so influence the latter group, the former will require a knowledge and understanding of the communicative implements described in the book, the author maintains.

A "must" for the public relations practitioner, this book will also prove interesting and stimulating to those seeking a broader appreciation of the impact of the theory and practice of public relations.

R. E. Sproule, Instructor,
School of Business
Administration, U.W.O.

AUTOMATION AND MANAGEMENT

by James R. Bright, Division of Research, Harvard Business School, Boston, 1958. 280 pp., $10.00

For some time the public has been bombarded with conflicting statements about automation. On one hand we hear about the dangers of technological unemployment. On the other, we hear about the need for increasing productivity to counteract the coming labour shortage. Businessmen interested in automation have heard, along with many glowing reports about successful automation installation, about high capital costs, failure to reach productivity goals, abundant technical and mechanical difficulties, and labour problems. Professor Bright, through the investigation of 13 varied automation installations, has accomplished much toward separating fact from fiction.

Before presenting his observations and conclusions, Professor Bright outlines his definition of "automation" and his method of describing a mechanized system, and adds a short history of the evolution of mechanization in manufacturing.

The word "automation" has been subject to a host of definitions. Coined in 1946, it has become a descriptive term for a variety of general and specific production activities. Actually, the process of reducing, replacing, and eliminating human effort, control, and judgment had been going on for many years prior to 1946. Feedback, automatic transfer of work pieces, and combination of operations have been used for some time. As an instance of control by feedback, the flyball governor has been in successful use since before the turn of the century. Electronic control, while receiving its greatest use in the last 15 years, was feasible many years before then. The recent increase in reliability of electronic equipment and high wage rates of labour made it practically and economically feasible.

By emphasizing recent developments, then, those definitions of automation which emphasize feedback, automatic work transfer, or work feeding cloud the total picture. Professor Bright, recognizing these conflicts in definition, chose to use "something significantly more automatic than previously existed in that plant, industry or location," which he says is based on general usage. If this definition has a fault it is that it is too broad. However, it appears to be workable for the many varieties and levels of mechanization encountered.

Professor Bright's method of describing the mechanization of a production process uses three measurements: (1) The *span* of mechanization (2) The *level* of mechanization (3) The *penetration* of mechanization.

The "span" of mechanization is the extent to which the series of required production activities is embraced by mechanization.

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Books for Businessmen — cont.

The "penetration" is the extent to which the secondary and tertiary activities, such as maintenance, lubrication, etc., are mechanized.

The "level" of mechanization is the degree of mechanical accomplishment in the process. By defining 17 levels of mechanization, Professor Bright is able to chart the "mechanization profile" of a sequence of operations and thus gain an overall concept of its mechanization.

Professor Bright's observations of the experiences of 13 companies with automation lead him to conclude that generalizations about automation can be very misleading. Many of the statements at the beginning of this review were found to be related to variables other than the increased mechanization. For example, skill demands for operators were found to decrease as mechanization increased. Problems of reaching productivity goals were often related more to the newness of the innovations rather than automation itself.

This carefully-researched book by Professor Bright provides a good groundwork for further investigation. He raises many questions which need to be answered. For the businessman interested in the impact of automation on mangement, however, answers on many aspects are provided. These are not concrete answers for individual situations; instead they show what precautions and plans need to be made by anyone considering automation.

Albert R. Wood, Lecturer in Business Administration, U.W.O.

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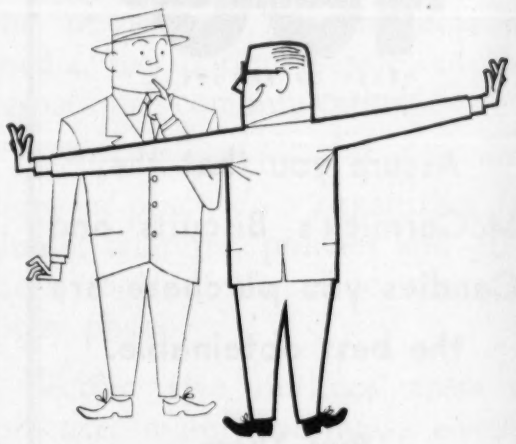

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THE DESIGN OF DEVELOPMENT

by Jan Tinbergen, The Johns Hopkins Press, 1958, Baltimore. 99 pp., $2.50.

This volume is a study of the thinking and activities of the Economic Development Institute of the Bank of Reconstruction and Development. It describes in some detail development policies and problems of programming and project appraisal in less developed countries. The reader of the book emerges with a clear understanding of many of the problems of planning the economic development of countries suffering from a low level of material well-being. The central theme of the book is that the process of economic development may be furthered by the adoption of a carefully-planned development policy. This application will be especially useful for persons working in administrative and advisory capacities in government, financial institutions, business or other important sectors of the economies of less-developed countries. The subject of the book is highly specialized, however, which suggests that there is perhaps little of practical value in this book for most Canadian business administrators.

John A. McArthur,
Research Staff, U.W.O.

INSTALLING ELECTRONIC DATA PROCESSING SYSTEMS

by Richard G. Canning. John Wiley & Sons, New York, 1957. 193 pp., $6.00.

Electronic data processing is a management tool and it is the re-

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sponsibility of management to learn its advantages and limitations. Mr. Canning prefaces his discussion of the installation of electronic data processing equipment with this admonition. What follows is a fairly detailed description of the job of programming, installation, conversion to and starting up of an electronic data processing system.

Since different companies have different objectives in installing electronic data processing, Mr. Canning has chosen an "efficient installation" as the most useful for his purposes. An "efficient installation" is one which maximizes the uses to which the equipment may be put. This is in contrast, for instance, to merely replacing punched card equipment.

This is a specialized book, useful for the most part to those who plan to install electronic data processing equipment or those who are interested in such an installation. In that sense, Mr. Canning has provided material valuable to the businessman who otherwise has only the equipment salesmen to consult.

STATISTICAL DECISION FUNCTIONS

by Abraham Wald, John Wiley & Sons, New York, 1950. 179 pp.

"Statistical Decision Functions" requires some familiarity with calculus, and more suitable books are available for general application in the field of business.

A. R. Wood, Lecturer,
School of Business
Administration, U.W.O.

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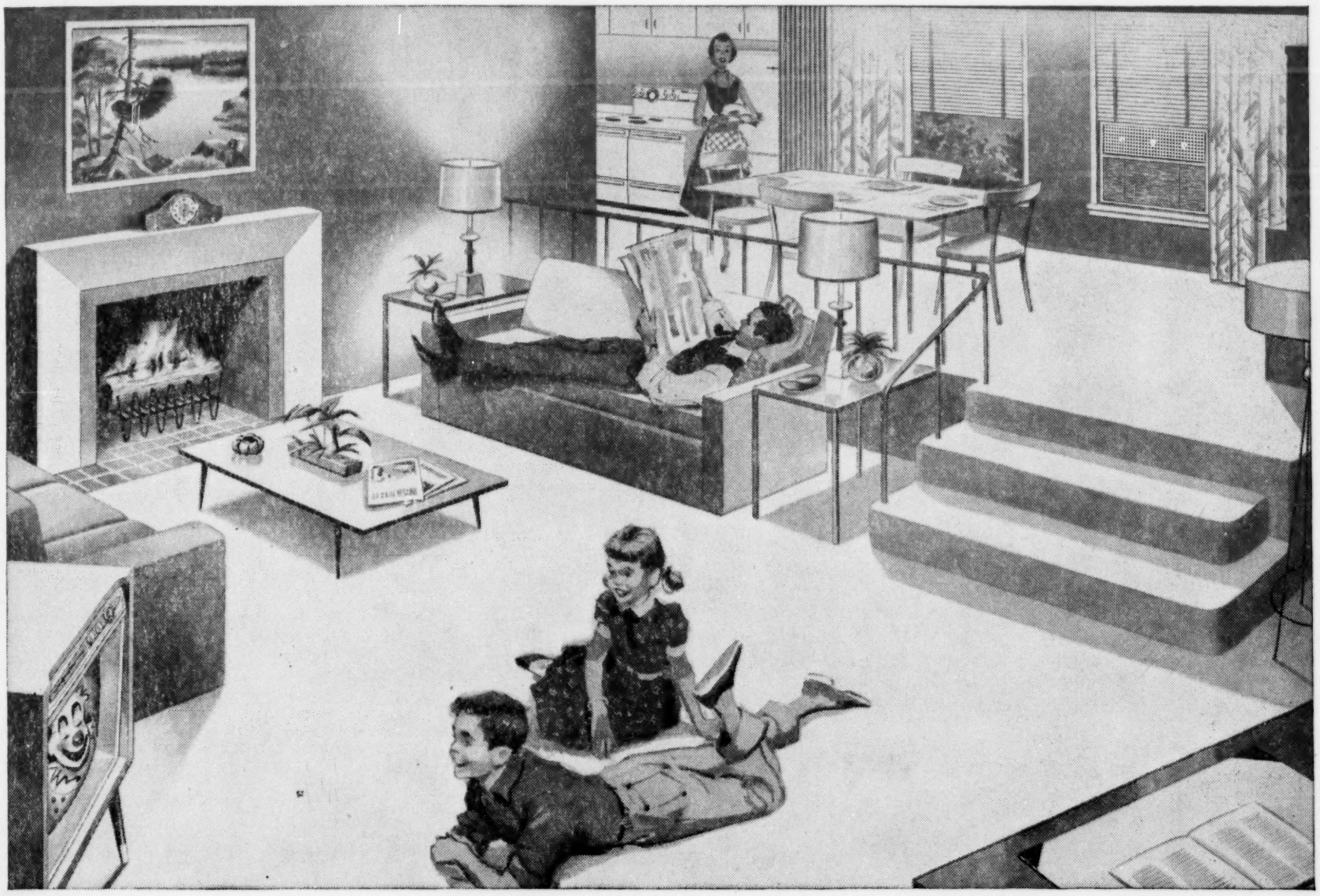

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